Resocializing Capital: Putting Pension Savings in the Service of "Financial Pluralism"?

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Since the late 1980s, social scientists have argued that advanced economies have undergone a process of financial concentration that is resulting in a growing unevenness of the accessibility of capital. Households, small and medium-sized businesses as well as non-standard economic activities have increasing difficulties in finding funds. There are both sound economic and compelling moral reasons to address this issue. In order to ensure a more equal accessibility of capital, the author proposes a mandatory levy on the surpluses of mainstream pension funds to fund an alternative financial infrastructure as a first step to redressing unevenness. The underlying rationale is that "financial pluralism" is the key to a more even accessibility of capital.

Keywords: *pension funds; financial exclusion; financial pluralism; globalization*

Seen from the perspective of even economic growth, the growing concentration of capital caused by the continuing consolidation of banks, insurers, and other financial service providers is worrisome to say the least. The more capital concentrates, the more it assumes a global perspective on investment opportunities,

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the less willing it is to honor local capital demands, the less it is available to agents whose profiles do not fit the dominant risk and return categories of the global financial industry—implying that society at large misses out on economic innovations that could enhance collective welfare. But financial concentration is also suspect from a moral point of view. The more capital concentrates, the more it serves the interests of global financial players, the less it is accessible to local or otherwise dissenting agents. In other words, the question how to ensure more equal access to capital has high economic and moral, albeit hardly any political, urgency.

Since occupational pensions can be seen as 'deferred wages' with a vague ownership status, while the funds managing these savings have been important drivers of financial globalization, there are good reasons to investigate how these savings could contribute to a more equitable accessibility of capital. Currently a number of ways are being considered to use these savings for the pursuance of atypical investment opportunities. For good reasons, so I will argue below, most of these are of a rather limited scale, however. Since pension fund managers have a functional and legal obligation to contributors as well as sponsors to aim for the highest returns and/or the greatest liquidity, it is hard to see why the goal of local investment should trump the goal of secure retirement if these investment strategies imply lower returns. Obviously, the case for local investments breaks down if it implies more precarious pensions.

To overcome this predicament I propose to target only the returns on pension investment that are in excess of what is needed to honor long-term obligations. The best way to do so, I argue, is by imposing a conditional levy of 50 percent on all pension surpluses. The system of pre-funding, which is in use in the United States, Canada, the United Kingdom, the Netherlands, Switzerland, and a small number of other countries, is based on long-term economic and demographic projections to determine the required level of income to cover long-term obligations. In general, pension fund income comes from two income sources: contributions and returns on investment. To avoid that contributions have to be adapted constantly to changing market conditions, pension funds use a fixed, artificial rate of return for their investments. This rate is fixed at such a level that even under adverse conditions sufficient return is generated to cover long-term obligations. However, there will always be occasions when the actual rate of return exceeds or lags behind the nominal rate. In the first case pension fund investments generate surpluses, while in the second there are shortages. Usually, the nominal rate is determined at the level of return of fixed interest–carrying instruments like treasury bills or blue chip corporate bonds. Since there appears to be a long-term 'equity premium' over bond returns,[1] in most years pension funds will reap rates of return on investment that exceed their obligations. The difference between the two, given conventional actuarial norms and standards, is what I call 'pension surpluses' and is (partly) to be earmarked for atypical investment.

As is well known from experiments with earmarking savings for atypical investments,[2] finding the capital is only part of the problem. The other is finding enough investment opportunities that satisfy social and economic requirements. To address this issue, I propose to construct an alternative financial circuit, managed by a so-called Fund for Economic Renewal that is loosely modeled on the American venture capital industry, which would make capital available to investment prospects that do not fit the categories of the financial mainstream and would hence counter the current tendency toward financial exclusion. The three goals most in need of funding while promising viable returns are regional and urban (re)development, small and medium-sized enterprises (SMEs), and combating social exclusion. However, my focus here is more on the feasibility and achievability of the proposed facility than about the nature of the 'financing gaps' in contemporary capitalisms.[3] As a corollary, I will not discuss the wisdom of these goals and will simply assume that they represent viable investment prospects that meet the long-term preferences of most constituencies.

A supplementary aim of this proposal is to make atypical investment strategies less anomalous and hence more attractive for mainstream investors through scale and demonstration effects, in the hope that enough capital will be attracted to the alternative circuit to reach a 'tipping point'. Since lack of liquidity is the main obstacle for mainstream investors to follow atypical investment strategies, the capital generated by the mandatory levy on pension surpluses proposed here would go some way to solving this problem. In terms of more recent developments in comparative institutionalism, what this boils down to is an attempt to add a new institutional 'layer' to already existing ones in the hope of changing the workings of these old layers by offering alternative behavioral patterns.[4] As such, this article adds a prospective usage to the exclusively descriptive and explanatory ones to which newly minted concepts of institutional change—'drift', 'layering', 'conversion', 'displacement', and 'exhaustion'—have been put.[5]

The structure of the article is as follows. I start with the question why we should target pensions as objects of resocialization.[6] The answer is that because of their 'vague' ownership status a convincing case to do so can be made. This is not to suggest that an extensive evaluation of the feasibility and achievability of alternative modes of socialization 'lite' is undertaken here, merely that targeting pensions fulfills both feasibility and achievability requirements. What is at stake here is the feasibility of the strategy to use pension funds, in whatever manner, as a lever for resocialization.

The next section discusses other modes of pursuing social ends by pensions means—in particular 'advocacy', 'screening', and 'targeted investment'—and argues instead for a conditional levy on pension surpluses. The section ends with a brief sketch of the design principles, i.e. incrementality, conditionality, and supplementarity.

After having set out the contours of the levy, the subsequent section addresses the design features of the supplementary financial circuit, the 'Fund for Economic Renewal' proper. Its properties follow seamlessly from the discussion of the two main stumbling blocks of 'targeted investment' undertaken in the preceding section, namely, cost problems and information problems.

The penultimate section deals with the underlying problematic which this particular form of socializing capital is meant to solve. Following recent studies on the exclusionary effects of global financial consolidation, I argue that 'financial pluralism', being a political economy that contains more than one financial circuit,[7] is superior in terms of combating financial exclusion but is, at the same time, increasingly under stress, because of the twin processes of desegmentation and concentration that are dominating the international financial landscape. The proposal for a conditional levy on pension surpluses to finance a 'Fund for Economic Renewal' must be understood against this backdrop. It is a means to inject a modicum of pluralism in financial systems that have increasingly become monist over the decades.

I end with some notes on its achievability.

1. WHY RESOCIALIZE PENSIONS?

Of course there is no reason why the aim to resocialize capital should be limited to pensions. In fact, other sources of income—in particular wealth and inheritance taxes[8] but also transaction taxes like the much-discussed Tobin tax—have recently been proposed for more or less similar aims.[9] However, given the almost universal downward pressure on taxes as a result of an international 'race to the bottom', whether 'real' or only perceived,[10] the plea for increasing tax rates, in whatever guise, appears to be unfeasible, while the introduction of a global financial transaction tax not only would be very costly and encounter severe collective action problems but also would result in 'distortions' of international capital flows whose effects are hard to predict. Without wanting to suggest that the alternative sources do not merit further investigation, I do like to stress that pension funds appear to be an easier target, not only because of their enormous size, but also because of their 'vague' ownership status. In particular, pension savings have a more obvious 'moral', 'public', and 'fuzzy' nature than many other capitals. Hence, primarily because of superior achievability, and equal feasibility, resocializing pension savings is the preferable strategy.

The 'Moral' Nature of Pension Savings

Since pension savings are 'deferred wages'—whether or not that is explicitly legally recognized, as is the case in the Netherlands—and serve the long-term

welfare of contributors,[11] investments should reflect the sum total of their interests. This means that contributors and recipients should not be treated by their trustees as abstract 'rentiers' but as 'concrete' consumers, producers, workers, citizens, fathers, mothers, grandparents, husbands, wives, etc. The point is that different roles give rise to different interests, which sometimes concur but at other occasions clash. It is obvious that equating such a plurality of interests with the one-dimensional interest of the fictional speculator is reductionist to say the least. Doing justice to the full panoply of interests requires the adoption of what demographers have called a 'life course perspective', which emphasizes that needs and interests change when individuals go through different life phases.[12]

To accommodate these needs and interests, a radical transformation of the conventional techniques of investment management into more pluralistic ones is required. This in turn demands changes in governmental supervision, professional standards, accountancy rules, statistical techniques, and audit formats as well as different systems of data collecting and processing.[13] Given the lack of capital pursuing atypical investments it is currently simply not profitable to set up such an alternative 'infrastructure' and the huge fixed investments they require. Since such an infrastructure has public good properties, simple game theory models can easily explain why voluntary investment is not forthcoming. However, the levy proposed in this article could generate a sufficient stream of capital to overcome this collective action problem and might induce private agents to undertake investment in the required 'infrastructure' voluntarily.

The 'Public' Nature of Pension Savings

In most political economies, corporate and industrial pension funds are established as 'trusts' or foundations. As such, they have an explicit nonprofit orientation and are exempted from profit and capital gains taxes. Moreover, most individual contributions are exempted from income taxes. Only when benefits are actually disbursed are they taxable. However, given the fact that most pensioners will have lower incomes than they enjoyed while working, they will normally fall into lower tax brackets, implying that pensioners in fact receive a substantial subsidy in the form of tax income foregone. Hence, most occupational pension systems are heavily subsidized by the state. Blackburn estimates the annual amount of taxes foregone in the United States at $100 billion and in the United Kingdom at $22 to $31 billion,[14] leading to the conclusion that at least part of their assets are 'public', which legitimizes the notion that the state has some right to ensure that the uses of these savings serve truly 'public' ends.

As such, this reasoning ties in with the so-called 'public trust' doctrine, embedded within the American legal tradition,[15] which maintains that the state has a special duty to guarantee public interests in the case of a proprietary reallocation

of a common resource. Given the foregoing, the claim can be made that at least part of the total amount of pension savings is precisely such a common resource, which ought to be managed in a way that furnishes the long-term interests of the public at large. Although highly controversial even with regard to its application to cases of natural resources protection and sites such as rivers, coasts, and national parks, the argument can be made that pension reserves do possess some of the properties of these natural resources.

The 'Fuzzy' Nature of Pension Surpluses

Pension surpluses are 'fuzzy' in both a technical and a political sense. As explained earlier, surpluses are the positive difference between expected incomes from current assets and expected contributions on the one hand and current and future liabilities on the other. As such, the exact determination of surpluses depends upon a number of fairly arbitrary financial, economic, and demographic assumptions regarding long-term population growth, returns on investments, inflation, economic growth, labor productivity, etc., which make quite a demand upon the interpretative skills of trustees, managers, and actuaries. To preclude self-serving manipulation, most national regulatory regimes contain procedural prescriptions regarding actuarial methods and assumptions, resulting in definitions of deficits and surpluses that are remarkably uncontroversial, given the manipulative possibilities interpretation entails and the strong interests at stake.[16]

The second respect in which surpluses are 'fuzzy' is more relevant here and has to do with their ownership status over and above 'public ownership'. Basically, the issue is whether surpluses are owned by the fund itself, by its sponsor, by contributors, or by pensioners. In the first case, the surplus is viewed as an extra buffer to absorb the effects of the uncertainties surrounding underlying actuarial assumptions. In the second case, the reasoning is that since sponsors have the duty to cover deficits they have the obverse right to appropriate surpluses. In the third case, it is maintained that pension assets are 'deferred wages' and that contributions should have been fixed at a level that is sufficient to cover future liabilities, no more and no less. Since surpluses indicate that contributions have been too high, given higher than expected returns on investment, it follows that contributors should receive a back payment or a contribution holiday until the surpluses have disappeared. In the fourth case, the surplus is also viewed as being owned by 'workers'. However, since most schemes at best provide indexation against inflation and since pensioners can no longer improve their socioeconomic position, surpluses should, for fairness sake, be used to improve the quality of the benefits of current pensioners rather than to reimburse current contributors.[17]

Given the earlier argument that at least part of the pension reserves are public and the probable controversies surrounding decisions in favor of any of the four potential 'owners', there is a case to be made for a fifth option, namely, to redirect these surpluses to destinations that serve the interests of the public at large. Before focusing upon the question how to do that, I first address the question why only pension surpluses are targeted.

2. WHY RESOCIALIZE PENSION SURPLUSES?

The idea that pension savings are 'deferred wages' and should be invested in ways that promote the long-term interests of workers, consumers, and citizens more generally has a long pedigree within the socialist movement, ranging from Fritz Naphtali's 'Wirtschaftsdemokratie'[18] and Gleitze's 'Sozialfund' to the capital gains–sharing plans that were discussed in the Dutch and Danish social-democratic parties in the mid-1970s.[19] Recently, after two decades of near silence on this topic, there is growing interest in the possibility of using pension savings to initiate what has been called a 'new politics of ownership' to overcome the excesses of corporate greed and—in response to the bursting of the 'equity bubble' since mid-2000—to find new, more sustainable investment outlets.[20]

Fung, Hebb, and Rogers, in their excellent overview of North American initiatives, have identified three types of 'pension fund engagement' that more or less cover the field.[21] These are 'advocacy', 'screening', and 'targeted investment'.[22] Advocacy is based on the direct leverage that pension funds can have over corporate strategy by becoming major stockholders and exercising their voice rights. Screening is less direct and involves the use of social, moral, and environmental criteria as investment filters. Targeted investment, finally, requires a much more active stance of pension funds. For in that case, pension funds not only initiate investment opportunities but also commit themselves to become patient investors, more or less along the lines of classic venture capitalists. Despite the enthusiasm with which these forms of engagement are currently discussed and propagated, the magnitude of assets thus invested is still relatively small, and, as I will argue below, for good reasons.

Advocacy

In spite of a growing awareness among pension fund trustees that their investment decisions can be hugely consequential, their investment strategies are mostly conventional and consist predominantly of investments in the most liquid and high-grade stocks and bonds, that is, 'blue chip' assets. In the United States, which saw the birth of this form of pension fund engagement, pension funds have mainly raised their voices to address issues of corporate governance, such

as compensation, corporate bylaw amendments, and limits on anti-takeover measures.[23] Since the mid-1990s, this type of activism has crossed the ocean and has turned large continental pension funds into powerful carriers of the 'shareholder ideology' that is eroding the continental stakeholder regime,[24] which, ironically, is viewed by many American scholars as a paragon of progressivism.[25]

This has everything to do with the structural constraints that pension fund trustees face. The first has to do with the extent of internal democracy. If you want progressive output, you will first have to ensure progressive input. Hence questions arise regarding the organization of collective decision making within the fund. What is the composition of the board? What are its rights and duties? To whom are trustees accountable? Ideally, the composition of the supervisory board is based on 'parity' and has ultimate determination rights over investment decisions. In the Netherlands, this is legally proscribed, both for corporate funds and for multi-employer funds. In the United States, however, equal representation is allowed for multi-employer funds only. Corporate pension funds are taken to fall under the full 'dominium' of the employer. Hence, the employer has fiduciary duties only and is not obliged to share prerogatives with worker representatives. The implication is that American workers have voice over less than 8 percent of their 'deferred wages'.[26] Even if workers' representation is legally guaranteed, though, there is a marked tendency, especially among larger pension funds, to delegate investment decision making to professional intermediaries that are located in the midst of the financial mainstream. In fact, investment management and consultancy have become booming industries in their own right, which are subject to similar forces of concentration as the banking industry (see below). The world's top ten money managers currently hold $6.7 trillion of a worldwide total of $16.6 trillion of pension savings, while the next thirty largest managers manage $8.7 trillion.[27]

And even if internal democracy is guaranteed, effective advocacy is not. Whether assets can be transformed in voice depends on the institutions of corporate governance, the ownership structure of the firm in question, as well as the absence or existence of legal investment restrictions. Whether getting access to the General Shareholders' Meeting (GSM) is in fact a first step toward gaining control over corporate behavior depends crucially on the rights and responsibilities of the GSM. Since national corporate governance regimes differ with regard to the power of the GSM vis-à-vis boards of supervisors and directors,[28] it is not surprising that pension fund activists are pushing for a more shareholder-friendly corporate governance regime.

Crucial too is the degree of ownership dispersal. If ownership is widely dispersed it is much easier to build up a substantial minority stake than if property titles are closely held. If there is a sufficient spread of titles, as is generally the case in deep and liquid equity markets, a minority stake of 2 to 4 percent suffices

to gain leverage over the shareholders' meeting and hence to get preferential treatment over other shareholders in the form of so-called investor's meetings with the board of directors. However, that is the case in only a minority of publicly quoted firms.[29]

The final constraint has to do with the logic that is hardwired into the institutional makeup of capitalized pensions.[30] For the board of trustees—however willing they may be to pursue engagement—has every reason to follow conventional investment strategies and hand over large chunks of their investment decision-making prerogatives to financial intermediaries. This has to do with the conflicting objectives that pension funds face: the minimization of risks, the minimization of costs, the maximization of returns, and the maximization of liquidity. These objectives serve the interest of the contributors and beneficiaries in a stable, secure, and high pension. At the same time, they give rise to investment strategies that do not lend themselves easily to pension fund engagement.

This is obvious for the requirement to diversify risks. Since beneficiaries demand a stable and secure pension, fund managers do well to distribute assets over a large number of asset categories with complementary risk and return profiles, and hence to sacrifice 'social leverage' or 'democratic pressure' for guaranteed returns—with or without legal requirements to do so. The same holds for the maximization of returns. Because surpluses mean lower employer contributions in the case of public and multi-employer pension funds and substantial reimbursements and/or lower contributions in the case of corporate ones, principals (the sponsoring corporation[s]) have every reason to design an incentive structure that incites agents (trustees) to invest in those assets that are perceived to be most rewarding and least risky—hence, the overwhelming presence of 'blue chip' stocks in pension funds' portfolio.

Since pension funds are subject to a life cycle during which the ratio of contributors and beneficiaries gradually changes, they face an increasing need to maximize liquidity. This results in a gradual transformation of their risk profile and their investment strategies, increasingly forcing them to invest in the most liquid markets and, within these markets, to buy the stocks of those corporations that have the largest daily 'free float'. As a consequence, pension funds gradually cease to be the committed, long-term owners so much cherished in the progressive literature and are unwittingly becoming speculative investors. Both effects work against the active use of voice rights.

Finally, there are strong economies of scale involved. Because investment management is extremely costly there is an evident need for standardization. However, standardization itself is only profitable if there is sufficient effective demand. As a result, the cost advantage of conventional investment strategies is such that most pension funds will decide against non-standard investment and will choose for conventional asset categories.

Screening

Screening, having germinated from the counterculture of the 1960s, gained widespread endorsement in the 1980s as a result of its role in bringing down the South African apartheid regime.[31] Currently, a little more than $922 billion is part of a socially responsible portfolio, or approximately 5 percent of all capital under professional management in the United States, while the screens themselves have become ever more precise, ranging from tobacco, alcohol ('sin screens'), and weapons to human rights, sweatshops, the environment, as well as specific countries known for human rights abuses, such as Burma, Nigeria, and Turkey.[32] Although no negative effects on investment returns have been observed,[33] neither is there any proof of changing corporate behavior.

As a means of corporate control, screening suffers from similar faults as consumer boycotts. Only in the case of glaring offences of moral norms, catching the eye of public media, will it affect corporate behavior. Minor offenses—or hidden offenses—will remain unpunished.[34] Another disadvantage is its reactive nature. In the words of Braithwaite and Drahos, 'Energy and resources are more likely to arrive after the horse has bolted'.[35] Nevertheless, it is undeniable that large-scale consumer protests have gained some well-publicized victories, the Brent Spar affair being a case in point. Screening could well have similar effects in some glaring future instances of corporate abuse. In other words, these qualifications should not be mistaken for a rejection of screening strategies as such, but rather as a call for more sober expectations regarding their effectiveness as control mechanisms.

Targeted Investment

Targeted investment refers to investments in atypical investment categories, such as community development, public housing, infrastructure, sustainable production, and SMEs, which are primarily picked for noneconomic reasons. What these types of investments have in common is their nontradable nature. In other words, there are no well-developed markets for these 'property titles' and hence no easy way of liquidation. In general, institutional investors tend to dislike that, since illiquid assets present unnecessary extra risks. A case in point is the current tax-induced craze for green and ethical investment in the Netherlands. Even though Dutch pension funds are increasingly directing capital to green and ethical trust funds, the amounts tend be negligible, while the recipient funds are grappling with insufficient investment opportunities that satisfy both sustainability and liquidity criteria. A similar story is told by the reluctance of Dutch pension funds to invest in private equity, even though returns on these types of investment tend to be above average. In fact, ABP, the largest Dutch pension fund and one of the largest worldwide, invests the capital it has earmarked for

private equity in the NASDAQ index to combine liquidity with private equity returns.[36]

There are good cost-related explanations for the reticence of pension funds to commit themselves to illiquid investments. First, the size of unconventional investment objects tends to be small, raising the costs of investment per unit. Secondly, determining the risk and profit profiles of alternative asset categories requires a kind of knowledge that conventional analysts are unable to muster. Thirdly, alternative investment opportunities do not offer themselves spontaneously but have to be discovered, nurtured, and even initiated, which requires a local scouting and assessment network, personalized and informal contacts, and entrepreneurial rather than financial skills.[37] If such an infrastructure is unavailable, it has to be set up de novo. That too is a difficult, time-consuming, and costly enterprise.[38]

Supplementary, Conditional, and Incremental

Given these constraints, proposals for resocializing capital should satisfy three design criteria. First, it should take place incrementally in order not to disrupt existing investment practices. Second, it should be conditional in order to stimulate pension funds to construct their own alternative investment facilities. And third, it should remain supplementary to the conventional financial circuit in order to preserve the existing capital processing circuits. A conditional levy on pension fund surpluses satisfies all three criteria, since it is an institutional facility that incrementally provides the capital that is needed for the construction of a stable, alternative financial circuit that could (partially) compensate for the uneven outcomes of conventional capital flows (see below), without endangering the saving function of mature pension funds. The aim to plug existing 'capital gaps' while simultaneously respecting the functionality of the conventional financial industry for stable and secure pensions lies at the root of the idea to impose a levy on the surpluses of those pension funds that do not already voluntarily invest in a circumscribed list of targets. As such, this proposal takes the liquidity requirement of pension funds seriously and acknowledges the wisdom of making maximal use of the sophistication of mainstream fund management to ensure high, stable, and secure pensions.[39]

The main source of inspiration for the criteria of supplementarity and incrementality have been derived from Klaus Novy's brilliant reconstruction of the 'socialization' debates in the German Socialist Party (SPD) of the 1920s.[40] Particularly ingenious are the so-called 'partial socialization' strategies discussed in those days. These strategies are based on the perceived inefficiencies of market allocation and express the hope that the introduction of elements of social planning in the productive sphere would make the planned sectors of the

economy more efficient than the marketized sectors and would ultimately outperform them. I share the expectation that alternative investment practices will in the long run prove to be just as rewarding as conventional investments and will thus increasingly be perceived as a viable investment option by both financial professionals and the public at large. The hope is that the financial mainstream will slowly tether toward 'reconstructed' risk and return criteria as soon as the number of participants and the amount of capital of the alternative investment circuit reach a certain threshold. In other words, what my proposal shares with the strategies of partial socialization of the 1920s is the emphasis on 'demonstration effects'[41] as well as on 'tipping points'.[42]

Moreover, there appear to be some similarities between the 'partial socialization' strategies discussed within the SPD, the socialization 'lite' strategy proposed in this paper, and what has recently been identified as the transformative effects of institutional 'layering' by institutional comparativists. 'Layering' is defined by Streeck and Thelen as the 'active sponsorship of amendments, additions, or revisions to an existing set of institutions'.[43] Adding new institutional layers to existing institutional arrangements can radically transform these arrangements through a mechanism that Streeck and Thelen have dubbed 'differential growth': '[T]he introduction of new elements setting in motion dynamics through which they, over time, actively crowd out or supplant by default the old system as the domain of the latter progressively shrinks relative to that of the former'.[44]

The examples they give are the introduction of privatized retirement accounts in the United States that have incrementally replaced defined benefit pension plans. A similar story is the introduction of private alternatives to public day care centers in Sweden, which is threatening to crowd out the latter. However, whereas Streeck and Thelen end their paper on a speculative note, suggesting that this type of change is especially suited for neoliberal market-making policies that aim to erode the market-correcting institutions of the classic welfare state,[45] there is no reason why these mechanisms could not be used to pursue progressive ends, as, in fact, the proposal elaborated in this paper aims to do.

But there are also crucial differences between socialization 'lite' and its German forebears. Instead of taking planning per se as a viable alternative to market allocation per se, my proposal is based on the insight that markets are institutions in their own right, which are open to premeditated design and have different behavioral effects, pending their layout. According to this perspective, it does make sense to argue for more just markets, implying markets which (1) feature a fairly equal distribution of market power; (2) provide relatively easy entrance and exit, both at the supply and the demand sides; and (3) induce agents to take account of the long-term effects of their actions. Many contemporary financial markets do badly on these criteria. By creating a parallel financial circuit that is superior in

terms of market power, entry and exit requirements, and the internalization of long-term effects, the goal of economic justice is served.[46] Hence, rather than replacing markets by planning, the proposal elaborated in this paper aims to fortify the allocation of capital by markets by rectifying the cannibalizing and self-eroding effects of current market behavior.

The origin of the principle of conditionality is more mundane. It derives from recent policy discussions in the Netherlands about the restructuring of the public housing sector. As part of a sector-wide bargain in the mid-1990s, public housing corporations gained regulatory independence in exchange for financial self-sufficiency. However, it quickly became apparent that the emphasis in their charter on financial autonomy resulted in speculative investment strategies that were detrimental to their social obligations. While many corporations got richer and richer, others, especially those that possessed large public housing stocks in the large cities, increasingly lacked the financial resources to make new investments. Since the autonomy of the corporations stood in the way of direct state intervention, one of the ideas recently launched to remedy this state of affairs is the construction of a private law 'Investment Society for Urban Renewal' that would funnel funds from capital-rich corporations to a number of targeted urban renewal projects. As the primary goal is to get these projects going, rich corporations could either invest in them voluntarily or pay a levy to the 'Investment Society' that would do it for them. Since this was only one of the many ideas launched on the topic and, on top of that, one of the most obliging, it met with fierce criticisms from the side of the corporations.[47]

Be that as it may, the principle of conditionality clearly fits a corporatist political economy in which a division of regulatory labor between state and private agents usually takes the form of self-governance in the 'shadow of hierarchy'.[48] Given the corporatist nature of the Dutch state, conditionality obviously recommends itself as design principle. I will not address the issue whether it is generalizable to other political economies.

4. DESIGN FEATURES OF THE 'FUND FOR ECONOMIC RENEWAL'

After having thus set out the design properties of the conditional pension surplus levy, I will below present the design features of the 'Fund for Economic Renewal' that is to allocate the amounts thus generated to capital-poor households, locations, activities, and sectors. To do so, I will first discuss a number of possible solutions to the main problems of targeted investment discussed above, namely, their prohibitive costs and the absence of an infrastructure to find and nurture atypical investment options. Combining the two results in a design that closely mimics the Anglo-American venture capital industry. I end the section with a brief sketch of the 'Fund for Economic Renewal'.

Cost Problems

Generally speaking, there are two solutions to cost problems in the case of financial investments. The first is simply lifting the profitability requirement of the investment fund in order to overcome cost thresholds. The second is by 'reconstructing' risk, return, and cost categories. I discuss each of these in turn.

Giving the 'Fund for Economic Renewal' a nonprofit charter means that it would not have to generate the same level of returns as commercial fund managers and that higher costs per unit would hence not endanger its viability to the same degree. Moreover, given the absence of external shareholders, it could allocate part of its returns to its lenders, which is merely a rephrasing of what it means to lend to non-standard debtors. The rationale behind a nonprofit charter lies in the supplementary nature of the assets controlled by the 'Fund for Economic Renewal'. Since these assets do not have to contribute to the coverage of current and future pension liabilities, the 'Fund for Economic Renewal' is free, in an economic sense, to wield a 'reconstructed' conception of profitability when assessing potential investments.

Post-war experiences in Western Europe with public investment banks have demonstrated that there is indeed a tension between the goals of plugging capital gaps and generating mainstream returns, seemingly corroborating the neoclassical thesis that structural capital gaps are in principle impossible in efficient capital markets. These banks either supplemented market allocation and had hence to accept lower short-term returns,[49] or had to satisfy mainstream financial requirements and hence substituted conventional market allocation.[50] However, the fact that there is a tension between financial and social goals does not imply that the choice for the one means sacrificing the other. For the very same experiences taught that public investment banks without profit goals either became 'charities' that squandered taxpayers' money or turned into state instruments that were used to 'back losers' rather than 'pick winners'.[51] Hence, the 'Fund for Economic Renewal' does need to have some profit requirement. What is crucial is its magnitude. It needs to be set at a level that is high enough to cover operational costs and low enough to provide excluded groups, firms, industries, and regions sufficiently easy access to 'cheaper' capital. In order to ensure state independence, the 'Fund for Economic Renewal' has to be set up as a 'revolving fund', that is, a fund that is financially self-sustaining.

'Profitability' is not a self-evident criterion. Regional development, SME investment, investments in infrastructure, and urban renewal generate different rates of return, carry different risk profiles, and require different criteria of assessment. In some cases submarket interest rates are required or lower levels of guarantees, i.e., 'cheaper' capital, while in others customization and hands-on support can do the trick. In other words, not all illiquid investments are necessarily loss making. Herein lay the second strategy to overcome cost problems. The point is that a diversified portfolio, crossing different asset categories, as is required here, creates

cross-subsidization possibilities that could help to overcome at least some of the cost constraints. In such a scheme the gains from successful initial public offerings (IPOs), for instance, are plowed back into the 'Fund for Economic Renewal' to facilitate, say, urban renewal and public housing projects. However, in the conventional financial industry, cross-subsidization is increasingly seen as bad business practice, giving a further reason to set up a parallel financial circuit that is at some distance from the mainstream.

Information Problems

Information problems come in two shapes. First is the problem of 'investment identification', or how to identify promising investment opportunities. Second is the 'assessment problem', or how to determine the economic potential of atypical investment opportunities and the creditworthiness of nonstandard debtors. The problem is that the 'Fund for Economic Renewal' is looking for profitable investment opportunities that are nevertheless disregarded by the mainstream financial industry, either because their risk and profit profiles do not conform to mainstream categories or because they do not have access to a regular financial service provider. The first issue is addressed by the 'reconstructed' norm of profitability that the 'Fund for Economic Renewal' uses (see above). To address the second one, an alternative investment circuit is required.

This can take three forms. Presupposing that cooperation with existing financial service providers—which, for reasons of a diverging ownership structure (savings banks, cooperative banks, state banks) or an explicit ideological orientation, use divergent performance standards and have access to local networks—is unavailable due to financial consolidation (see below), the required expertise will have to be acquired in other ways. One way could be to select and hire professional asset managers on a case-by-case basis. Another would be to hire asset managers wholesale. The disadvantage is that in both cases the type of skills that are acquired are of 'the analytical, financial engineering, deal making, and transaction and closing' kind and not the 'company forming, building, and harvesting skills' that are needed to bring small start-ups to fruition,[52] let alone the specialized expertise that is needed to assess the profitability of urban renewal, regional development, or infrastructural projects.

This leaves a third solution that, although hard to realize, does give the 'Fund for Economic Renewal' the required distance from the intellectual and ideological hegemony of the financial mainstream. The idea is to construct a multi-layered organization, a true 'fund of funds', that divides tasks, rights, and responsibilities over a large number of legally independent but functionally dependent units, following the principles of federalism and subsidiarity, i.e. jurisdictional competencies should not only be devolved to the lowest possible level of aggregation (subsidiarity) but also be segmented along functional lines (functional federalism).

Which agent is responsible for which type of decision and at which level of aggregation is determined by expertise, commitment, and functional requirements.

As rules of thumb, the following distribution principles could be followed. Decisions regarding the allocation of capital over asset categories, as well as the performance indicators attached to each category, are made by the board of directors of the 'Fund for Economic Renewal', which consists of accountable representatives of both capital providers (pension funds) and capital recipients (SMEs, local interests). The reason why those decisions should be made at a central level has to do with their distributive nature. In order to enhance the problem-solving capacities of the board of directors, the decision-making process should be as depoliticized as possible. That can be accomplished by shielding the decision-making representatives as much as possible from the interest groups they represent.[53] Moreover, the lack of tacit and situated knowledge—one of the main drawbacks of high-level decision making—does not matter much,[54] since these decisions generally entail balancing general interests, abstract criteria, and abstract types of knowledge.

Instead, decisions regarding the granting of specific loans to specific clients or the making of specific investments in specific locations do require tacit and situated knowledge, while the more concrete nature of these decisions limits the need for depoliticization. Hence, there should be a sizeable autonomy for the directors of the local funds. Since they have to act within the parameters laid down by the central fund and will hence be subjected to a sufficient degree of ex post control to preclude manipulation and favoritism, this autonomy will nevertheless always be circumscribed and conditional.

The 'Fund for Economic Renewal' in Outline

Following these precepts, the 'Fund for Economic Renewal' could take the following form. It consists of a central fund—the 'fund of funds'—where the aggregation of the proceeds from the pension levies, the administration, as well as categorical allocation takes place. Day-to-day assessment and management, however, are delegated to local funds, whose jurisdiction is either territorially (regional funds) or functionally (sectoral funds) organized. In this manner, economies of scale—joint administration—can be combined with the advantages of devolution and small scale, i.e. flexibility, diversity, and effective use of local knowledge. To prevent hierarchical control and coordination from undoing these advantages, centralized administration and decentralized handling are kept legally distinct. Otherwise central decisions threaten to trump local needs and requirements. On the other hand, to guarantee a 'shadow of hierarchy' and to preclude that local interests hijack local funds, the relationship between central and local fund is laid down in contracts, which stipulate performance indicators as

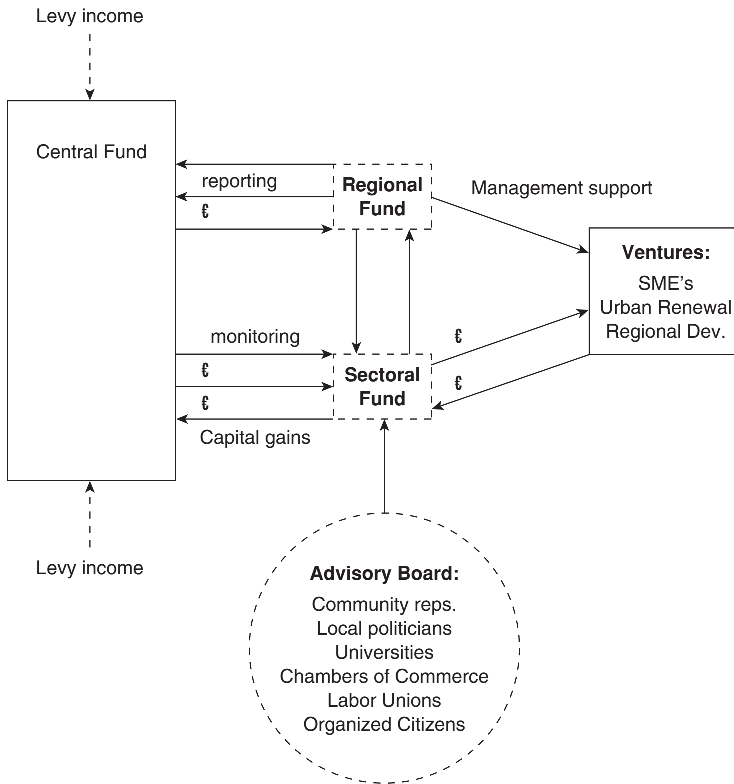

Figure 1. Fund for economic renewal.

well as sanctions and rewards. The flow of capital from central to local fund takes the form of a loan over which local funds have to pay a low interest rate. If the local funds reach their quota, they will be rewarded with lower interest rates; if not, they will be punished with higher ones.[55] In this way, local funds have an incentive to maximize the amount of capital invested in the prioritized categories as well as to do so prudently, for rates of return over and above the rate of profitability set by the central fund accrue to the local funds. Finally, to ensure that investment opportunities are in fact identified, nurtured, and brought to fruition, the local funds should actively seek out local representatives from industries, governments, universities, and labor unions to take a seat on formal advisory boards in order to enlarge their catchment area.

This may look far-fetched but is in fact largely similar to the structure of the venture capital industry, as described by Mason and Harrison.[56] For there too the

effective use of local knowledge is guaranteed by delegating the responsibilities of day-to-day-management to local venture capital firms which possess the required mix of financial and entrepreneurial skills and are locally embedded, while categorical management is undertaken by regional or national venture capital funds, staffed by managers with skills that are much more geared toward financial management.[57] The main differences between the venture capital industry and the 'Fund for Economic Renewal' presented here are (1) the latter operates under a reconstructed profit charter; (2) pension fund sponsoring is mandatory rather than voluntary; and (3) its charter is politically determined and gives greater weight to social, environmental, and geographical goals.

5. WHY ARGUE FOR RESOCIALIZATION AT ALL?

A key question is why we should resocialize capital in the first place. If the efficient market hypothesis is correct, which maintains that prices in 'free' capital markets reflect all available information and hence that no profitable investment opportunity will remain structurally un(der)funded, then improvement upon the efficient allocation of scarce means through 'free' markets is impossible. However, ideal and reality do not always square. In a powerful criticism of the efficient market hypothesis, financial geographers have increasingly focused on territorial, functional, ethnic, and sexist unevenness to demonstrate that even within well-developed political economies, which nominally meet the adjective 'free', there is a marked inequality in access to capital.[58] The financial industry is seen to favor some and to disfavor others. The notion of 'financial exclusion' that is used to denote this state of affairs, however, not only pertains to the lack of access to basic financial services of ethnic minorities, the un(der)employed, women, and other marginalized groups,[59] but also encompasses the phenomenon of lack of investment capital for SMEs, greenfield industries, and peripheral regions. For instance, the geographical distribution of venture capital in the United Kingdom is highly tilted toward the affluent southeast.[60] In a more recent study, Martin, Sunley and Turner have found that this unevenness can also be observed in France, Sweden, and the Netherlands; venture capitalists as well as their clients tend to cluster around national financial centers, i.e. Paris, Stockholm, and Amsterdam, respectively.[61] More widespread is the observation that small firms have difficulty financing their expansion, both because of insufficient 'retained earnings' and because of lack of external capital.[62]

The explanation is to be found in the structure of the financial sector.[63] Most political economies have historically harbored different regulatory regimes for different financial markets in order to satisfy the financial needs and requirements of different constituencies. Important instruments for 'financial segmentation' are the legal walls between investment banking, retail banking, private banking, insurances, pensions, and mortgages. The American Glass-Steagall Act

of 1933, which separated deposit banking from investment banking and the saving account business from securities underwriting by restricting the income that could be derived by deposit banks from the latter activity to a mere 10 percent, is a good example of such a segmenting device.

Underlying both functional and geographical segmentation is the need to ensure more or less equal access to capital for center and periphery and large and small firms that is forced upon national legislatures by peripheral interest groups with political clout, as is argued by the comparative political economy literature.[64] Since different actors have different financial needs, which reap different rates of return and bear different types of risks, states have usually tried to attract capital providers to less rewarding capital outlets through fiscal subsidies while simultaneously preventing cross-segmental concentration by constructing 'fire walls' between different financial institutes. As a result, each of these segments is populated by a distinct set of financial agents, providing a distinct number of financial products that cater to different consumers, requiring distinct mixes of codified information and interpretative skills, entailing different risk and return profiles, distinct ownership and control structures, as well as diverging investment criteria.

The same is true for equity markets. Given the need for 'thick', qualitative information to determine the value of small firms, there is a strong rationale for proximity. As such, it makes sense to have specialized, regionally based equity markets in order to provide local monies to local firms based on acquaintance with local conditions. Historical studies have shown that regional stock exchanges were important gravitation 'points' for the nineteenth-century 'industrial districts' of Alfred Marshall's United Kingdom.[65] In Germany, cooperative banks and provincial stock exchanges still fulfill this function, even though the new Basle II capital requirements and the European Union (EU) competition policy are increasingly putting them under strain.[66]

Hence, despite diametrically opposed state traditions, a unitarian and highly centralized state in the case of the United Kingdom[67] and a pluralist and decentralized one in the case of Germany,[68] and despite being on opposite ends of the shareholder/stakeholder dichotomy,[69] both political economies have harbored, at one time or another, a multi-layered, segmented financial system, indicating strong political (local constituencies) and economic (information asymmetries) rationales for 'financial pluralism'.[70]

Financial pluralism refers to a financial architecture that provides alternative sources of funding, is explicitly designed to cater to the financial needs of different constituencies, and consists of different mixes of state regulation, self-regulation, and market pressures to do so. Forms of financial pluralism can be found in almost all advanced political economies, including Germany, Italy, Japan, the United States, and Switzerland—classic federal states—but also, albeit to a lower extent, France, Sweden, Portugal, the Netherlands, and the United Kingdom.

In fact, there is no political economy without at least a modicum of 'financial pluralism'. Hence what matters are the extent of segmentation and the level of concentration. These differ widely between political economies. In 1996, for instance, the share of the commercial banking sector of the five largest banks in terms of turnover ranged from 30 percent in the United States to 56 percent in Italy, 62 percent in Spain, 66 percent in Germany, and 83 percent in Switzerland. Their share in the overall banking sector, though, encompassing both commercial banking and public and not-for-profit banking, was 17 percent in the United States, 34 percent in Italy, 47 percent in Spain, 21 percent in Germany, and 63 percent in Switzerland. The comparable figures for typical monist political economies like the Netherlands, France, Sweden, and Australia are much higher, with 76 and 66 percent respectively for the Netherlands, 60 versus 37 percent for France, 94 versus 63 percent for Sweden, and 73 versus 62 percent for Australia.[71]

The assumption underlying the proposal presented in this paper is that pluralist political economies betray a lower level of financial exclusion than monist ones. To my knowledge, there are no studies that have systematically assessed this claim. That is because financial exclusion is extremely hard to operationalize and measure. There is some circumstantial evidence, though. Recent figures from the EC, for example, demonstrate that SMEs have a harder time to get finance in political economies with more concentrated and desegmented financial systems than they have in economies with pluralist systems.[72] Figures from the United States corroborate this. Using a sample of 1.6 million loans to U.S. businesses by U.S. banks, Berger, Kashyap, and Scalise (1995) showed that size is crucial.[73] The largest banks tend to lend predominantly to large firms, whereas SMEs are overwhelmingly dependent on small, local capital providers. In the absence of alternative means of financing—state banks, local savings and cooperative banks, or regional stock exchanges—increasing concentration inevitably results in a rapid contraction of capital for SMEs. Vice versa, a more even geographical distribution of economic growth is strongly helped by a pluralist financial structure.[74]

Hence my claim that pluralist financial systems are prudentially and morally superior to monist ones. Prudentially, because a more even distribution of economic growth obviates either expensive dislocations or costly interregional redistribution,[75] while morally a more even distribution of capital across regions, firm sizes, and economic activities can be seen as one of the institutional requirements of equality of opportunity and access.[76] Of course, this raises the important question how still existing pluralist financial systems can be buttressed given strong pressures to financial desegmentation and concentration on the one hand,[77] and how a modicum of pluralism can be introduced in financial systems that over the decades have become increasingly monist on the other.

The proposal elaborated in this paper tries to do exactly that. In monist financial systems it reintroduces a parallel layer of institutions for the aggregation,

mobilization, and allocation of capital that is supposed to develop into a full-blown, self-standing financial system that ultimately, through the mechanism of differential growth, might succeed in releasing the grip of the financial mainstream on citizens' resources. In still existing but threatened pluralist regimes, on the other hand, the levy could provide a constant influx of capital from the mainstream into alternative circuits, symbolizing their mutual dependence and supplementary functions.

4. ACHIEVABILITY

While I hope to have made a convincing case for the feasibility of this particular mode of resocializing capital, the issue of achievability is still unaddressed. Since existing institutional arrangements reflect a temporary power balance between contending interests, each and every proposal for institutional renewal is simultaneously an infringement of vested interests. In other words, institutional change involves real losses for at least some of the agents. Hence, the achievability of a proposal for institutional experimentation depends crucially upon its ability to identify winners and losers, to calculate the costs involved, and to reimburse losers as much as possible. In this particular case, three types of agents can be identified: (1) the sponsors of pension funds, in particular large firms; (2) their contributors and beneficiaries; and (3) the financial industrial complex, especially large insurers and banks. I discuss each of these in turn.

Corporate Sponsors

Although there is widespread consensus that pension savings are 'deferred wages', corporate sponsors generally do advance strong ownership claims on pension fund surpluses. As such, strong opposition from corporate sponsors can be expected. However, there are at least three arguments against corporate ownership claims. The first we have already encountered and pertains to the 'public' nature of pension savings and hence of pension fund surpluses, giving the state a legitimate say—which is not the same as a controlling say—over the uses of these surpluses. The second has to do with the unequal treatment of the surpluses of multi-employer pension funds vis-à-vis corporate pension funds. In the first case, the link between sponsors and fund is much more indirect, blocking restitutions (though not contribution holidays); while in the second, the link between sponsor and fund is much stronger, allowing restitutions in good times and obliging sponsors to refund in bad times. The point is that this boils down to a preferential treatment of large firms over SMEs. The idea of a surplus levy thus reveals a long-standing antagonism within the 'class' of capitalists, opening up the possibility to forge cross-class

alliances (between SMEs and labor unions, for instance) that enhance the possibility to overcome the resistance of large firms.

The third argument builds forth upon corporate interest in a vibrant, innovative environment, based on the availability of a number of crucial production factors such as loyalty, commitment, trust, high qualifications and competencies, networks of cooperation, etc.[78] Since these factors have public goods properties, 'pure' market coordination generally results in their undersupply. Hence, 'beneficial constraints' are needed to force rational agents to forsake short-term gains and take the long-term effects of their behavior into account.[79] Similar to institutions like legally mandated collective bargaining, minimum wages, co-determination, works councils, and vocational training, a surplus levy would dampen the short-term liquidity preference of pension funds and would instead force them to take long-term social, environmental, and geographical considerations into account.

Even though many large firms possess the means to create 'islands of order in an ocean of chaos',[80] in most cases internalization is set in motion by a low-trust environment, that is, an environment that lacks the institutionalized constraints that force agents to produce common-pool resources like trust, loyalty, and commitment. However, even large firms are better off with an abundant supply of public goods than without. Since trust, loyalty, and commitment lower transaction costs, large firms will in that case be able to externalize the costs of producing them in-house and can hence forgo some of the costs of building large hierarchies. In short, investing in the trust-building capacities of a region is in the long-term interest of large firms too. Consequently, they should explicitly be invited to participate in the construction of local investment networks to enhance their geographical embeddedness and make them less footloose. Moreover, part of the capital of the 'Fund for Economic Renewal' should be made available to large firms—for instance, to finance experiments with sustainable products and sustainable production—to dispense the suggestion of a bias against scale.

Contributors and Beneficiaries

The main concern of pension plan participants is about the level, stability, and security of their pensions. As such, redirecting savings away from the financial mainstream appears to go against the grain of workers' interests. However, these interests too are less homogeneous than might appear. For both in cases of underfunding and overfunding, beneficiaries clash directly with contributors. In situations of underfunding, deficits can be remedied by increasing contributions, reducing the plan's quality, or a mix of the two. In the first case, the burden is exclusively shouldered by contributors; in the second, by beneficiaries; and in the third, the burden is shared. In the case of overfunding, surpluses can be distributed either to beneficiaries in the form of better conditions or to

contributors in the form of contribution holidays. Given the fact that every decision, even nondecisions, will affect parties differentially, trustees face the difficult and highly political task of distributing deficits and surpluses.

The only way out of this distributive game is to emphasize that all present and future contributors will eventually turn into beneficiaries. If participants can be encouraged to take a life course perspective, the clash between lower contributions and higher benefits stands a chance of being resolved. However, adopting a life course perspective would imply not only the inclusion of contributors and beneficiaries in the plan's decision making, but, as I argued above, also that all relevant interests and preferences should somehow be included.

The first requirement is currently in the process of being realized in the Netherlands by installing so-called stakeholder councils, consisting of representatives of current retirees, into the plan's governance structure. After a halting start, many pension funds now seem to take these councils much more seriously, partly because of the pension crisis of the early twenty-first century and the growing saliency of its distributive consequences, and partly because of a covenant between the employers' federation and labor unions, which aims to strengthen the legal position of the councils. However, the call for one or more pensioners' representatives in the board of trustees still meets with fierce resistance from the labor unions, who claim to represent both workers' and pensioners' interests and who fear a divide-and-rule approach by their counterparts.

The second requirement flowing from a life course perspective is still unmet, however. The surplus levy would fill this vacuum. By supplementing the conventional financial industry with an alternative financial circuit, it embodies the collective need for equal and sustainable development later while simultaneously recognizing the legitimacy of the need for high, stable, and secure pensions now. Moreover, the moral imperative to adopt a life course perspective will only be convincing if there already is an institution embodying it. For not only does 'ought' imply 'can', but also the actual availability of morally required action 'space' makes the moral requirement to perform that action so much stronger. Obliging pension funds to reserve half of their surpluses for investment in projects that, according to our current knowledge, serve the long-term wealth- and welfare-generating capacities of society is a step that takes the brute social fact of inter- and intragenerational interdependence and the 'weak' moral community it constitutes seriously.

Pension Funds, Banks, and Insurers

Even though financial desegmentation and consolidation are global phenomena, this is not to say that there are no longer any differences between distinct financial institutes that could be manipulated by the legislature. Even monist

financial markets still harbor remnants of segmentation.[81] What is crucial is the preferential fiscal treatment that pension savings get in most political economies, whether formally segmented or not. As I argued earlier, these fiscal grants provide an excellent lever for the state to claim at least some say over the employment of these savings. Even more important is the fact that through these grants, the state is actually privileging some agents over others. Especially since Dutch pension funds are increasingly entering markets that used to be the domain of banks and insurers, their preferential fiscal treatment has more and more turned into a cause of complaint, especially by insurers.

Whether the differential treatment of insurers and pension funds can claim continuing legitimacy depends on the willingness and ability of national regulators to keep both markets separate. However, upholding walls between financial markets has become increasingly difficult not only because of international market pressures but also because of EU policies aimed at the creation of a European financial market.[82] Such a constellation provides an excellent opportunity to offer pension funds a political bargain. States could grant them a legal guarantee to uphold their preferential fiscal treatment against the complaints of insurers, and even against European pressures, in exchange for their passive consent to a surplus levy. In this way, national governments could overcome the organized resistance of the pension fund community.

On the other hand, such a levy, and especially the accompanying 'Fund for Economic Renewal', poses new threats to banks, for allocating productive capital to firms and aspiring entrepreneurs is a classic bank function. Hence, banks can be expected to be among the most vocal opponents. Although the investment criteria of the 'Fund for Economic Renewal' are meant to isolate investment opportunities that are currently outside the reach of the financial industry, implying that charges of unfair competition are misplaced, the many precautionary measures surrounding the establishment of state investment banks in Europe in the 1940s and 1950s, such as charters containing explicit prohibitions to tread on the turf of investment banks,[83] demonstrate that this will probably not be enough to deflect the complaints of commercial banks. What did help, though, were equal ownership and control rights for state, banks, and institutional investors.[84] However, since the 'Fund for Economic Renewal' is supposed to break the monopoly of the conventional financial industry over the management of workers' savings, this form of co-optation is unavailable.

Hence, we seem to be faced with precisely the kind of standoff between moral and economic requirements that I have done my utmost to avoid. Either the 'Fund for Economic Renewal' serves purely moral goals, will not tread on the turf of banks and insurers, and will be prudentially unsound, or it follows conventional economic desiderata and will hence crowd out private investment. In the face of strong economic motives, moral considerations generally lose out.

The implication is that the decision to resocialize capital cannot be a matter of voluntary decision making by private agents but does require mandatory state intervention, which, under conditions of neoliberal globalization, is anathema.

Even here, though, there are some opportunities to overcome this formidable obstacle. First, the growing fears of national and supranational regulators for 'systemic crises' have increased the appreciation of 'fire walls' between different financial segments, which might lead to a positive reassessment of the advantages of 'financial pluralism'. Secondly, the stock market crash of the early twenty-first century has highlighted the vulnerability of Western pension savings because of their increased dependence upon rising share prices for their long-term security. The search for alternative, less risky investment opportunities that many pension funds initiated in its wake might provide a fertile breeding ground for institutional arrangements that funnel some of their capital toward 'targeted investments'. Thirdly, one of the most important 'demonstration effects' of the current wave of pension engagement is that economic and moral objectives are less mutually exclusive than is often presumed. There is ample proof that what is morally desirable can be profitable and vice versa,[85] partly because there actually is some overlap between the two, as is argued by Streeck and others in their discussion of institutionalized 'beneficial constraints',[86] and partly because in our complex world human cognitive capacities are easily overwhelmed, resulting in search strategies that aim for 'satisficing' rather than optimizing moral and prudential objectives.[87] In other words, we do not know a priori what is morally and prudentially required, but have to find that out by continuous experimentation.[88]

However, neither these qualifications nor the use of divide-and-rule strategies will overcome all objections. At the end of the day someone is going to get hurt, and since that is the case states will always have some role to play in guaranteeing their citizens fair access to capital, the legitimacy of which is based on paternalistic arguments whose moral validation is grounded in a well-reasoned balance between moral, prudential, feasibility, and achievability requirements.

NOTES

1. R. Mehra and E. C. Prescott, "The Equity Premium: A Puzzle," *Journal of Monetary Economics*, no. 15 (1985): 145-61; and E. Dickson, P. Marsh, and M. Staunton, *Triumph of the Optimists: 101 Years of Global Investment Returns* (Princeton, N.J.: Princeton University Press, 2002).

2. See A. Fung, T. Hebb, and J. Rogers, *Working Capital: The Power of Labor's Pension* (Ithaca, N.Y.: Cornell University Press, 2001), for some examples.

3. I borrow the distinction between *achievability* and *feasibility* from Erik Olin Wright, denoting theoretical plausibility (will it work?) and political practicability (can it be implemented?), respectively.

4. See K. Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge: Cambridge University Press, 2004); and

W. Streeck and K. Thelen, eds., *Beyond Continuity: Institutional Change in Advanced Political Economies* (Oxford: Oxford University Press, 2005).

5. W. Streeck and K. Thelen, "Introduction: Institutional Change in Advanced Political Economies," in Streeck and Thelen, *Beyond Continuity*, 1-39.

6. To indicate that the spirit infusing this article is not the same as that of earlier attempts to socialize capital, I have added the prefix 're'. Socialization *lite* does not aim to topple capitalism, understood as a coherent economic system, but instead tries to enhance human economic freedoms through well-reasoned institutional proposals that are feasible as well as achievable and that are based on the insight that there are different modes of capitalisms with different distributive effects. I take that to be the hallmark of 'real' or 'concrete utopianism'. See E. O. Wright, "The Real Utopias Project," in *Associations and Democracy: The Real Utopias Project*, ed. J. Cohen and J. Rogers (London: Verso, 1995), ix-xiv; and P. Bourdieu, "A Reasoned Utopia and Economic Fatalism," *New Left Review*, no. 227 (1988): 125-30.

7. The concept of 'financial pluralism' is not widely used. I first came across it in a contribution on the site of the global association of saving banks—http://www.savings-banks.com—where it was used to describe a situation where different sources of capital were available. That, so the author claimed, would serve the interests of the poor, especially in developing countries. Since then, I have only found two other occasions of its usage. The first is in a article by Graber and Teubner about the financing of art, where financial pluralism denotes legally facilitating different sources of sponsoring for artists to ensure their autonomy; C. B. Graber and G. Teubner, "Art and Money: Constitutional Rights in the Private Sphere?" *Oxford Journal of Legal Studies* 18 (1998): 61-74. The other was at the occasion of the 8th Meeting of the Commission on Sustainable Development, New York, April 2000, when, in a session on 'Global Financial Challenges', Karmal Malhotra of the UNDP argued for more international financial pluralism in order to enhance competition among global financial institutes. Both usages largely accord with mine in that they stress the enhanced accessibility of capital because of a pluralist provision system.

8. See, for a recent example of a proposal that targets bequests, B. Ackerman and A. Alstott, *The Stakeholder Society* (New Haven, Conn.: Yale University Press, 1999).

9. In fact, the French NGO ATTAC proposes a tax on worldwide foreign exchange transactions of 0.1 to 0.25 percent to deflect speculative capital flows and the havoc they can wreak upon developing economies and to generate capital for an international fund of poverty alleviation. Ceteris paribus, a tax of 0.1 percent would raise between $148 billion and $166 billion, while a tax of 0.25 percent would generate $290 billion. Of course, much hinges on whether conditions will indeed remain the same. See Attac France, "Tobin: déplacer les charges fiscales vers les jeux boursiers," http://www.france.attac.org/a116 (accessed April 1, 2006), for a detailed description.

10. See F. G. Castles, *The Future of the Welfare State: Crisis Myths and Crisis Realities* (Oxford: Oxford University Press, 2004); and D. Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States* (Cambridge: Cambridge University Press, 2002), for well-argued criticisms of the 'race-to-the-bottom' proposition.

11. This is not to deny that there are some types of pension savings that are more a common-pool resource than an individual wage, the distribution of which is not so much guided by the moral philosophy of desert and contribution as by that of social rights. Although most of the arrangements set up to embody social citizenship are of a pay-as-you-go kind and hence do not entail savings in a strict sense, there are some examples of funds that do. In this paper, though, I have only those pension arrangements in mind that collect, aggregate, and invest income-based contributions and provide benefits according

to some individualized formula. Hence, also left out of consideration are defined contribution plans, such as those provided by mutual funds and insurers.

12. G. H. Elder, "Time, Human Agency, and Social Change: Perspectives on the Life Course," *Social Psychology Quarterly* 57, no. 1 (1994): 4-15; D. Hogan, *Transitions and Social Change: The Early Lives of American Men* (New York: Academic Press, 1981); and K. U. Mayer and N. B. Tuma, *Event History Analysis in Life Course Research* (Madison: University of Wisconsin Press, 1990).

13. It is obvious that the technical and political problems of setting up such an infrastructure are too numerous to be discussed here. However, see D. Silvers, W. Patterson, and J. Mason, "Challenging Wall Street's Conventional Wisdom: Defining a Worker-Owner View of Value," in Fung, Hebb, and Rogers, *Working Capital*, 203-22, for an interesting attempt to reconstruct the dominant conception of 'economic value' from a worker/contributory perspective. See also M. Blair, *Ownership and Control: Rethinking Corporate Governance for the Twenty-first Century* (Washington, D.C.: Brookings Institution, 1995).

14. R. Blackburn, *Banking on Death, or, Investing in Life: The History and Future of Pensions* (London: Verso, 2002), 476.

15. J. L. Sax, "The Public Trust Doctrine in Natural Resource Law: Effective Judicial Intervention," *Michigan Law Review* 68:471-566.

16. P. Bennett, *Pension Fund Surpluses* (London: Longman, 1994), 11-14.

17. Ibid., 15-33.

18. F. Naphtali, *Wirtschaftsdemokratie. Ihr Wesen, Weg und Ziel* (Frankfurt am Main: Europäische Verlagsanstalt, 1966).

19. J. de Beus and T. Koelble, "Debating the Quality of Life: Social Democracy during the 1980s," *Government & Opposition* (1994): 515-35; W. Dercksen, "Vermogensaanwasdeling en Economisch Herstel," *Socialisme & Democratie* 4 (1985): 120-26; and F. de Kam and W. Vermeend, "Een Levensvatbare Vermogensaanwasdeling," *Socialisme & Democratie*, no. 11 (1979): 522-30.

20. See Blackburn, *Banking on Death*; G. Clark and T. Hebb, "Pension Fund Corporate Engagement: The Fifth Stage of Capitalism," *Relations industrielles/Industrial Relations* 59, no. 1 (2004): 142-71; G. Dymski, G. Epstein, and R. Pollin, *Transforming the U.S. Financial System: Equity and Efficiency for the 21st Century* (Armonk: M. E. Sharpe, 1993); Fung, Hebb, and Rogers, *Working Capital*; A. Gamble and G. Kelly, "The New Politics of Ownership," *New Left Review*, no. 220 (1996): 62-98; P. Hirst, *Associative Democracy: New Forms of Social and Economic Governance* (Oxford: Polity, 1994); W. Hutton, *The State We're In* (London: Cape, 1995); R. Pollin, "Financial Structures and Egalitarian Economic Policy," *New Left Review*, no. 214 (1995): 26-61; and R. Unger, *Democracy Realized: The Progressive Alternative* (London: Verso, 1998), for recent proposals.

21. The term 'pension fund engagement' is from Clark and Hebb, "Pension Fund Corporate Engagement," and is used here in an expansive sense to include all forms of investment intervention through pension savings.

22. Fung, Hebb, and Rogers, *Working Capital*.

23. M. O'Connor, "Labor's Role in the Shareholder Revolution," in Fung, Hebb, and Rogers, *Working Capital*, 67-92.

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