

The Global Pension Crisis: From Gray Capitalism to Responsible Accumulation

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The ageing society has profound consequences for accumulation in each state and region because pensions represent a claim on future income and output. Today's United States and United Kingdom pension crisis stems from a failing private sector with excessive costs and risk. Public provision using pay-as-you-go payroll taxes has, by contrast, proved highly cost-effective and equitable. However, aging and unequal cohorts create a need for extra resources. Retirement incomes should total 12 to 14 percent of gross domestic product if older people's relative incomes are to be maintained. Raising such a sum solely from payroll taxes would generate the unemployment seen in continental Europe. The alternative is to redistribute capital to a regional network of social funds by requiring each corporation to issue shares equivalent to 10 percent of their profits annually to those funds. The share levy does not subtract from the corporation's cash flow and therefore protects employment and investment, but it does dilute the value of shareholding each year by a small amount. The social funds would not sell their shares but would keep them to generate income for future pensions. The social funds would supply a universal second pension; they could establish criteria of socially responsible governance in their use of shareholder power, and they would be subject to expert and democratic audit.

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Notwithstanding widespread obeisance to the 'free market', all modern states make large scale public provision for physical infrastructure; for education, health, and disability; and, last but not least, for pensions. These expenditures are met from public revenues or from publicly organized contributory systems. There are good reasons for believing that, in future, increased outlays will have to be made for these purposes, and that this will place a strain on public budgets and existing fiscal arrangements. This is partly because the aging society, the knowledge-based economy, and defense of an ecological balance favorable to humanity will require extra spending on education, health, R&D, social infrastructure, clean technology—and pensions. It is also because, as societies become richer, some prefer to take more free time, with the latter taking various forms—longer retirement, more study, gap years, career breaks, maternity or paternity leave, part-time employment, more holiday, a shorter working week, and, an important category, work freely undertaken. The capitalist imperative driving people into paid work to meet obligatory outgoings, or enticing them to work harder and longer as the route to higher consumption, is partially counteracted by the desire for more education, more flexibility and creativeness in work itself, and more free time, or 'quality time'.

Extra free time, or time out of the paid labor force, will have to be subsidized if it is not to lead to penury and starvation. This is true even if it can be shown that the research student or the retired, voluntary community care worker is contributing to the well-being of others as well as themselves. Both the student and the retiree need income entitlements, and historically they have often received them in the world's most dynamic societies. One way of pursuing this argument would be to look at the aggregate of all social expenditures and entitlements and explore whether there is pressure for them to rise and, if so, how they might be met in future. For example, one could point to the frequently labor-intensive character of education and health, urging that this will generate a tendency for costs to rise; or one might analyze the impetus towards private affluence and public squalor, and how it might be redressed. However, I prefer here to concentrate on just one area, since this is more manageable and since the area in question—that of delivering decent pensions—is a non-optional, big-ticket item. We may or may not see the need for a step change in R&D, or an extra week's holiday for all who want it. We may not be convinced by the case for global warming, or we may be puzzled by what can be done about it. But the swelling ranks of seniors, and their sons, daughters, and grandchildren, will make sure we don't forget them. So there will be pressure in every part of the world to ensure a minimum flow of resources to the elderly.

I will focus on the need to meet a rising bill for pension provision—sometimes this simply means honoring promises that, one way or another, have already been made. I will urge that the defects of existing pension provision open the way for bold egalitarian and collectivist solutions. I will urge that both public and private

pension systems are already failing in various ways even before the onset of the demographic shock of the retirement of the baby boomers, which will not start until around 2010. New fiscal instruments and new models of provision could better enable the challenge of pension provision to be met and could also help to foster a more responsible model of accumulation in the wider society. There could be, I will argue, a link or affinity between assuring our future as individuals and assuring a better future for all.

The prospect of a sharp increase in social expenditures looms at a time when electorates are thought to be allergic to tax increases. Existing social provision, including pensions, is paid for largely by levies on current revenue and expenditure. While there is certainly some scope for raising these taxes I will be urging in the conclusion that there are better ways of providing extra resources for the specific needs of the aging society and that pensions in particular should also be financed by levies on capital. Another way of putting this would be to say that we should aim to meet postretirement income replacement by finding a way to take the strain off labor incomes and ensure that some income from property is pledged to pension provision. I will cite evidence showing that corporations have greatly reduced the amount they pay in tax, and make a dwindling contribution to pension schemes. If corporations were obliged to issue new shares each year equivalent to, say, a tenth of their profits, this could begin to build up assets in a universal, multi-employer fund that could be held to finance future pension needs. Of course, private pensions do rely on asset income already but the employers' contribution is declining and anyway often takes forms which, as we will see, concentrate employee risk. I will be sketching a way in which an asset levy on shareholding could be used to restore the employers' contribution, spread risk pooling, extend coverage, and help in the maintenance of pensioners' relative incomes.

The requirement to issue new shares would, by diluting the value of existing holdings, represent a tax on shareholdings. At the present time nearly everything one can think of—including the homes people live in—is subject to a tax, but nowhere is there a tax simply on the holding of shares, a practice highly concentrated among the wealthiest. The idea that a way should be found to tax shareholdings was first canvassed in the U.S. Congress in 1862 by Representative Schuyler Colfax, a Republican from Indiana, but it was his parallel proposal to tax income that became the chief instrument of redistributionist policies in the twentieth century.¹ In the 1970s, the influential Swedish labor economist Rudolf Meidner put forward a far-reaching plan to oblige corporations to donate new shares each year to a regional social trust fund network and thus to finance social expenditure by redistributing wealth rather than income. His ideas will be introduced in the section on European pension problems and will be elaborated in the latter portion of the article.

SUCCESSSES OF PUBLIC PENSION PROVISION

Public retirement provision has time and again proved to have great mobilizing power and to be a source of political legitimacy. This is because contributory systems build a sense of entitlement, because they affect so many, and because humans know that they owe their existence to the toil and sacrifice of their forbears. Public pensions also happen to be very efficient. While the private sector has had the edge in delivering consumer goods, I will be advancing reasons to believe that noncommercial organizations are best at delivering many financial services.

Bismarck, Lloyd George, and Roosevelt introduced state old-age pensions because of the manifest inadequacy of private solutions and because of the public support this won for their wider political projects. In the aftermath of the Second World War the enhanced fiscal capacity of the state, the fresh memory of 'market failure', and popular longing to banish the specter of old-age poverty led to widening entitlement and almost universal provision within each industrial state. In some cases the establishment of a new and more ambitious pension system allowed states to mobilize resources for public works and for industrial development, and in fact to set up a new regime of accumulation which both promoted development and embodied social guarantees for the population. Postwar Japan, Singapore, France, and Germany were all examples of states that used pension funding to mobilize popular savings and boost national wealth. In each of these cases savings were husbanded by noncommercial social or para-state institutions, which helped to define distinctive civic identities and welfare regimes.

Notwithstanding the different configurations of U.S., continental European, and Japanese capitalism, all relied heavily on dedicated pay-as-you-go (PAYGO) methods to finance pension provision. That is to say, the contributions that flowed into the schemes were used to pay the promised pensions. In the early years entitlements were modest and the surplus channeled to infrastructure investment. Subsequently as entitlements rose, the PAYGO funding method managed to keep pace with rising payouts in subsequent decades. Contributions rose because of some mixture of increased employment, rising wages, and higher contribution rates.

The PAYGO method of funding pensions through payroll taxes has proved to be a highly cost-effective way of supplying a universal basic pension. In this role it cannot be bettered. The secret of its success is its ability to count on future contributions to meet the entitlements built up by current contributions. This is a guarantee that only the state can make. Not only can it levy taxes but it can also anticipate raising revenues from those not yet born.² No commercial organization could make such a pledge. The seeming miracle of PAYGO helped to

underpin social advances throughout the advanced capitalist states in the postwar period and could be seen as an important qualification of capitalist principles of social organization. It allowed reasonable public pensions to be paid to many older workers who had contributed little or nothing to them—though they might have contributed to some defunct system. In the United States or Great Britain the ‘blanketing in’ of contributions to older workers was politically acceptable, indeed popular, because this was a generation which had fought and suffered in the world wars and in the Depression.

However, the payroll tax used to finance PAYGO is usually paid at a flat rate and with a cutoff point above a threshold. In itself it is regressive, taxing the higher earners at a lower rate, though progressive payout rates will make it redistributive overall. In a later section we will look at the claim that at rather high rates—say, 20 percent of salary—it can foster unemployment.

Pure PAYGO also works best when age cohorts are of the same size, and it comes under strain when the ratio of workers to pensioners is unbalanced. If there are too many workers and too few pensioners, then the PAYGO system will accumulate a surplus. This need not be a problem if the increase in saving is matched by productive investment and if overall levels of demand are maintained. If the imbalance is in the other direction, with the numbers of pensioners rising sharply in relation to those making contributions, then the problem is a different one: it is that of preventing either a shortfall in pensions or a steep and counterproductive rise in payroll taxes.

The combination of rising longevity and a falling birth rate creates the latter type of imbalance and it will be aggravated by the aging of the postwar baby boomers. It is true that rising productivity could generate rising contributions even from a stationary or diminishing labor force. But increases in productivity raise general levels of prosperity and pensioners will hope to share in it. In a classic article, Richard Musgrave argued that the fairest way to adjust PAYGO in the context of a rising proportion of the retired is to keep the same overall relationship between average income and pensioner income. This can be done by somewhat reducing pensions and somewhat raising contributions so that pensioner incomes remain at the level of, say, 70 to 75 percent of average income (this being the approximate relationship in most advanced countries).³ But such an adjustment is not easy, especially when intensified by the retirement of baby boomers from about 2010. A PAYGO system can be made a little more flexible by means of a funding mechanism which allows the larger cohort to build up resources as well as entitlement during its working years.

In principle, there is no reason why public systems could not combine PAYGO with prefunding, but in practice this often turned out to be controversial. Banks, fund managers, and occupational schemes acquire assets so that they can deliver on pension promises. But for the state to build up a stake in this way was almost

universally avoided. Business leaders expressed their opposition to what they saw as back-door socialism.⁴ The public systems did build surpluses but these were held in the form of public bonds or simple Treasury IOUs, attracting low rates of interest. There are further theoretical issues, to be addressed below, concerning the ways in which funding really can secure future income.

Some believe that the costs of the aging society can be met by modest adjustments to the pay-as-you-go system but they are usually focusing only on provision of a basic pension—say, at the level of U.S. Social Security—not on what will be needed to ensure that pensioner incomes as a whole remain at about 70 percent of average income. While Social Security is very efficient and equitable, as presently configured it does not claim to supply a full retirement income. To achieve the latter goal, secondary as well as primary pensions will be needed. I will be suggesting that PAYGO, while it remains indispensable, cannot meet the full bill now in prospect. The new revenues that will be required in the aging society and knowledge economy will require something extra—a willingness to encroach on the presently highly unequal distribution of property rights, and to rein in costly forms of financial intermediation, characteristic of today's capitalist society.

If PAYGO will have problems meeting the required sums, this is even truer of commercial providers. While PAYGO can at least meet part of the problem, commercial provision makes it worse because it is not good at turning contributions into pension income. As we will see, the competitive provision of pensions by the financial services industry is patchy, expensive, and wasteful. What is still sometimes thought of as 'Anglo-Saxon capitalism' or 'Anglo-American capitalism'—a model that gives a central role to stock exchanges and deregulated financial markets in every area of social life, including pension provision—has spread to an ever-widening circle of countries thanks to the advice of the World Bank and the pressures of globalization. Yet commercial provision has failed to reach much of the population and has performed unreliably even for those it does reach. Furthermore, the fund managers have been bad at ensuring responsible patterns of financial custodianship.

In the United States, the financial services industry has long enjoyed tax relief—recently, this 'tax spend' has run at over \$100 billion a year, or five times the size of the farm budget—yet private pensions amount to only 10 percent of the income of those who are sixty-five or over. The rather modest U.S. Social Security system still supplies four times as much of that income. The public system is highly cost-effective. It delivers a basic pension and a variety of other benefits to 45 million beneficiaries with a staff of only 65,000, making it about the size of a single Wall Street bank, though its employees do not, of course, earn Wall Street salaries. The high costs of the private pension system—expensive marketing as well as high salaries—are geared to the needs of the wealthier

saver. Jacob Hacker argues that the tenacity of the financial services industry has ensured that the tax spend on private pensions has proved very resilient, leading to what he calls a 'divided welfare state'.⁵

Over the last two or three decades, Anglo-American patterns have boosted the income and wealth of the top 1 percent of the population, while entangling the mass of working families more deeply in debt.⁶ Moreover a half or more of the tax relief on pension contributions accrues to the richest tenth of households.⁷ The banks and fund managers who run this publicly subsidized regime are integral to a malfunctioning system which has created a crisis of corporate governance, stoked stock market bubbles, and been tarnished by a string of financial and corporate scandals affecting investment bank practices, mutual funds, and insurers. In the years after 2000, pension prospects sagged as both individual and corporate schemes suffered from sliding or stagnant markets and high costs, and as corporations cut both the taxes they pay and the provision they make for employee pension and health needs. The subsequent recovery saw a persistence of these problems with evidence, to be considered below, that the need to mend deficits in corporate schemes actually subtracted from investment and employment.

The Anglo-American pension fund regime has created a pension crisis whose progressive resolution demands a new and different type of corporate contribution to pension provision, one that would reverse the growth of inequality. It also requires more accountable institutions of financial regulation and custodianship. The present economic landscape is dominated by a short-sighted pursuit of 'shareholder value' and by commercial actors which seek to commodify every social relationship. 'Financialization' leads to short-term horizons and an absence of transparency in the handling of collective assets. I will be exploring not only new ways of raising resources for pension provision but also new—or transformed—public agencies to monitor or care for them, drawing critically on the experience of public sector pensions funds and 'socially responsible investment' (SRI). The continental European and Far Eastern models of state-sponsored pension provision also often still retain positive features, notwithstanding the inroads made by the 'Anglo-American' or neoliberal model. However, while they have commendable features—and still fairly generous levels of public provision compared to the United States and United Kingdom—they also need to strengthen their finances and to establish more democratic forms of accountability in the management of social funds.

THE STALLING OF THE EUROPEAN AND JAPANESE MODELS

The relative generosity of pension provision in Germany, France, Italy, and Japan became entrenched in the postwar period because it was allied with quite high

rates of savings, investment, and growth. To begin with, many of the contributions paid into the system were not immediately paid out as entitlements but were used to finance public works or boost company reserves. In France the state mandated independent, noncommercial entities representing employers and trade unions to manage much pension provision. In Germany and Italy, public provision is supplemented by a requirement that corporations build up reserves which are held to finance pensions for their employees. These reserves played a crucial role in buttressing corporate finance. In postwar Japan, the state used citizens' pension contributions to finance extensive public infrastructure projects; roads, harbors, bridges, and so forth. In Singapore, the Central Provident Fund played a similar role, with a large housing program. One way or another, pension provision was intimately related to the regime of accumulation, such that savings for retirement significantly boosted general economic advance.⁸

But over the past few decades, European and Japanese finance ministries have encountered limits to this model. They have discovered that payroll taxes high enough to finance the full pension raised labor costs and weakened demand, leading to high rates of unemployment. Indeed, because of this, the tax yield did not rise as fast as anticipated. In Germany, France, and Italy, payroll taxes—that is, taxes levied on each employed worker—have amounted to 40 percent of wages, with the proportion going to pensions amounting to 19 percent of wages. Social taxes are here falling on working people and count as a tax on jobs. Official unemployment rates have run at 10 percent or more over the last decade, while the proportion of those aged fifteen through fifty-nine who are in employment reaches only around 60 percent, with unemployment heavily concentrated among older and younger workers, and women. Employment is about 15 points higher in the United States.⁹ In a later discussion it will be stressed that the Anglo-American corporate pension fund model has also been bad for jobs, especially 'good' jobs, but this fact does not mitigate the malfunctioning of the European model and the heavy political price paid for the failure to tackle unemployment. (Half the French unemployed voted for Jean-Marie Le Pen, the far-right candidate, in the presidential election of 2003.)¹⁰

It is not the level of benefits that is at fault in the European model, or the resort to payroll taxes, but the insistence on financing the scheme from payroll taxes alone. The European Union faced a deflationary climate anyway in the 1990s because of the reductions in public deficits decreed by the Maastricht agreement and enforced by the European Central Bank. High payroll taxes aggravated this problem of weak demand. The money coming in as social insurance contributions from the swelling cohort of baby boomers was much larger than the pensions being paid out to the smaller cohort of existing retirees. So the problems encountered by the European pension regime did not yet stem from the numbers of pensioners greatly outstripping the numbers of workers because

of aging—demographic imbalances actually counteracted this long-term trend at this time. And insofar as there were too few workers, this was because of high unemployment, low growth, and deflation, not demography. Likewise in Japan, a country where the aged are looming larger in the population, the crisis of the 1990s had other causes, namely, the exhaustion of the regime that channeled pension contributions into building more and more roads and harbors. The infrastructure investment program had by this time reached the point of sharply declining, or negative, returns.¹¹

The problems posed by extensive aging of the population are only now just beginning to count for something in Europe and Japan. It is in the next decades that they will strain the pay-as-you-go method of financing the public pension system by raising contributions ever higher to pay a mounting pension bill. The slow growth of the past decade or more has also worsened the problem. So long as growth was maintained, PAYGO worked well, but the stalling of growth diminished income to the pension system. As we have seen, this stalling was not caused by a declining ratio of workers to pensioners—if anything, the reverse. But in future, demographic constraints will work in a different way and, if not properly managed and anticipated, will put great, perhaps intolerable, strain on any excessive reliance on PAYGO finance.

So in a society where age cohorts are of greatly varying size, where the birth rate is low, and where longevity is increasing steadily, some tax increases or prefunding will be needed to ensure that an equitable sharing of burdens is achieved. I have cited Musgrave's formula according to which we must strive to keep the same relationship between pension incomes and average income.¹² The U.K. Pension Commission has rightly applied this principle to the share of pensions in gross domestic product (GDP) as well as to the basic pension, estimating that pension income from all sources should supply 13 to 14 percent of GDP by 2050 in order simply to maintain pensioners' relative income.¹³

While PAYGO methods could still supply a basic pension to all, it becomes unrealistic to expect it to supply everyone with secondary pensions as well. The revenue in current PAYGO systems stems from payroll taxes whose yield will reflect the numbers in employment and their level of income. The size and income of the workforce thus determine revenue to the scheme. The numbers in employment will be reduced by any contraction in cohort sizes or any growth in the time necessary to educate and train the workforce. In an aging society, even a gently growing labor force can be outpaced by a more rapidly growing elderly population. What counts in a retirement system is the ratio between the number of active employees and the numbers qualifying for a pension. So far, most European states have yet to devise a strategy for surmounting this problem. However, in at least one case, appropriately radical measures have been at least experimented with.

SWEDEN: GOOD BENEFITS WITH HIGH EMPLOYMENT

Sweden has had some success in financing generous welfare without raising unemployment or anticipating a big rise in social provision. This is partly because it was prepared to go beyond PAYGO financing. After a stiff political battle, a funded state second pension was established in the late 1950s.¹⁴ Gosta Rehn and Rudolf Meidner, the two chief architects of the 'Swedish home', helped to ensure that the macroeconomic impact of pension and welfare finance was fully taken into account. A coordinated wage round ensured that the better-placed workers did not capture undue advantages. The large corporations were given every incentive to put away reserves during good times, giving them a cushion if the trade cycle turned down (we will see below that this contrasts with the 'pro-cyclical' character of Anglo-American corporate pension funding). Government expenditure on health, education, and child care helped to sustain demand and meet social need.

Rudolf Meidner was chief economist for the Landsorganisationen i Sverige (LO), the main Swedish trade union federation, and in the mid-1970s he proposed the setting up of 'wage earner funds' to be formed by requiring all large Swedish corporations (or foreign subsidiaries) to issue new shares to the wage earner fund network equivalent each year to a fifth of their profits.¹⁵ Meidner saw this as a way of democratizing economic power in Sweden since the regional network was to be accountable to local constituencies. But he also stipulated that the funds could only spend their dividend income on a range of permitted social objectives, including pensions. It is important to stress that Meidner was not proposing a variant of employee share ownership since the shares in each fund would be highly diversified—they would in fact be a sample of all firms in the economy. In the normal course of things, the shares would not be sold but held to generate future revenue. For the managers of the big corporations this was a quite gentle financing method since it made no extra demands on cash flow. But so far as the main shareholders were concerned, matters were quite different. It was a small but tangible dilution of the value of their holdings, and eventually it would be a threat to their continued control of the company. A scaled-down version of the 'Meidner plan' was adopted by the Swedish Social Democratic Party, but it became the target of a sustained campaign. The 'twenty families' who own most of Swedish industry mobilized vigorously against the threat to their hegemony. Social funds were established in 1983, and by the early 1990s they owned 7 percent of the Swedish stock market. In 1992, an incoming Conservative government wound up the scheme and used the accumulated funds to set up half a dozen research institutes—they have helped Sweden to establish itself at the forefront of the knowledge-based economy. Recoiling from the bruising controversy provoked by the Meidner plan, Sweden's Social Democrats have turned away from such challenges to business ownership and confined themselves to ensuring low-cost commercial pension fund management.

I will further explore Meidner's proposal below because I believe that, with appropriate modifications, it could play a key role in financing the costs of the aging society. But I will first seek to establish that the latter are indeed considerable and that existing arrangements are not capable of bearing the full burden.

THE REALITY OF THE DEMOGRAPHIC SHOCK

The economic strain of an aging society can be underestimated as well as exaggerated. Today, future pension provision poses a challenge to nearly every country. In every developed state, even those with very modest public retirement provision, pensions already take a huge bite out of the public finances. This is because we are here dealing with the livelihood of between a tenth and a quarter of the population—just keeping them alive, let alone fit and comfortable, is a major undertaking. The aging effect is intensified by a decline in the birth rate as well as steady increases in longevity, and both are global trends.

The ageing society will generate rising medical expenses. Those over sixty generate medical costs, each year, three or four times the bill for those under sixty. In the United States, some of this cost inflation is caused by expensive and wasteful forms of commercial health care. But the experience of many countries suggests that if the health of the over-sixty population is to go on improving, then medical expenditure will also have to rise. In the United States it is reckoned that the medical expenses of an aging society will be absorbing 3.5 percent of GDP by mid-century. Committing real resources to a healthier and more active population of older people is likely to be at once popular, economically rational, and socially just.

The graying of the population is less intense in the United States than in most advanced countries, but even here the number of persons aged sixty-five or over is set to rise from 36 million in 2003 to around 70 million by 2033. Over the same period, the proportion of those sixty-five or over in the total population will rise from 12 percent to about 20 percent. Older people need less income than those with young families and work expenses, but they are still generally reckoned to require 70 percent of their previous income if they are not to suffer a significant drop in living standards. US retirement provision will need to reach about 12 percent of GDP by 2033, if the retired are to receive 70 percent of their income in employment, or 15.5 percent of GDP if medical expenses are included. At existing rates, the Social Security system is scheduled to furnish no more than 7 percent of GDP by that date. Given that private and occupational pension scheme coverage has been shrinking in recent years, it looks very unlikely that private pensions will be able to supply the missing 5 percent of GDP by 2033 or 2050—in 2003, they supplied only 2.3 percent of GDP. A funding gap of at least 2.7 percent of GDP is likely—or 6.2 percent if medical costs are included. (The proposed creation of 'personal accounts' would not at all improve such calculations—in reality, they would have real difficulty simply making good the loss of Social Security entitlement.)

Only about a half of U.S. adults have significant secondary pension coverage, and even many of these will find themselves living on much less than they hoped. A major study of the prospects facing future U.S. retirees by Edward Wolff finds that, already in 1998, with a still buoyant stock market, the prevailing pension regime—with its heavy reliance on, and subsidy of, commercial provision—was failing. It found that 18.5 percent of households heading for retirement could expect incomes below the poverty line, while 42.5 percent would not be able to replace 50 percent of their preretirement income.¹⁶ The troubles of subsequent years will have brought more people within these unhappy categories.

Many will want to work past what was previously thought to be the normal retirement age. Those over fifty-five or sixty-five may retire from their previous occupation but feel they have much to get out of life and to contribute to society. As Peter Laslett puts it, retirement is being replaced by the Third Age.¹⁷ Instead of retiring, the over-sixty population goes back to college or learns a new occupation, or begins to play a more active role in the community. The social contribution of the Third Age is encouraged by pension provision, rather than rendering it unnecessary. It allows the second or third occupation to be undertaken for its own sake. Once the older person has some security of income, then they can take up postretirement work, perhaps on a part-time basis. They can also contribute to family or civil society. If they are thrown into abject poverty, this contribution becomes much less likely.

In developing societies families may absorb some of the costs of the aging society but their ability to do so is increasingly limited by geographical mobility, rising medical costs, and the difficulties which working families have in meeting essential outgoings. The provision of a state pension became necessary in modern societies, partly because of popular pressure, partly because they facilitated labor mobility, and partly because some of the stronger capitalists preferred to see all employers bearing the same welfare burdens.¹⁸ In his classic study, Gosta Esping-Andersen argued that public-mandated pension provision was a mechanism of 'decommodification', since the state thereby relieves citizens and their families of much of the financial burden of old age.¹⁹ In the next section we will see that privatization proposals, whether explicit or implicit, partial or comprehensive, seek to return the burden to the private domain and to destroy the powerful, if imperfect and incomplete, method of securing intergenerational transfers represented by the established PAYGO state pension systems.

Global demographic projections show an increasing proportion of the adult population living past retirement age. The aging of the population is a feature of both developed and developing countries. The United Nations (UN) midrange projection tells us that the over-sixty population, who comprised 30.7 persons per 100 adults in 1998 in the developed countries, will comprise 62.3 persons per 100 adults in those countries in 2050. In Latin America, the proportion rises from 13 over-sixties

per 100 adults in 1998 to 39 over-sixties per 100 adults in 2050. In Asia, including China and India, the anticipated proportion of those over sixty rises from 14.1 per 100 adults in 1998 to 40.8 in 2050.²⁰ In each society, rising numbers and rising expectations will give critical mass to the Third Age.

As we have seen, the United States confronts a future where those aged sixty-five or over will comprise a fifth of the population by 2033 and where, in consequence, there will be less than three persons of working age for every dependent. The overall dependency ratio is likely to be improved by a declining proportion of children but the need for longer periods of education and training will offset this to a considerable extent. The fall in the ratio of workers to dependents can be alleviated by rising productivity, but seniors will not be the only ones hoping to benefit. Indeed the productivity gains themselves may well not be forthcoming unless public revenues are pledged to badly needed large-scale investment in education and infrastructure. We should not simply assume productivity gains but plan for them by devising a virtuous circle of public investment, rising productivity and rising incomes, and pension provision. But there will be difficult trade-offs and they will not be resolved in a progressive way unless the wealthy and the corporations are obliged to contribute to the costs of reaching and maintaining such a virtuous circle. Pensions will only be able to benefit from rising productivity if we allow for the public investment that will make this possible.

Immigration is sometimes wrongly thought to offer a cost-free solution to the problem of a worsening dependency ratio. There are inherent limits here since migrant populations also experience increasing longevity and a lowered birth rate, with younger immigrants wishing either to send money home or to bring over their elderly relatives. The projections of a decline in the ratio of workers to dependents already assume, in the U.S. case, the entry of nearly a million migrants a year. The UN Population Division has calculated that in order to attain a dependency ratio in 2050 similar to that which existed in 1995, the United States would have to find 593 million immigrants over the period up to 2050, raising the immigration rate to 10.8 million a year. This immigration would raise the total U.S. population to 1.1 billion and would only 'solve' the dependency problem by requiring huge new infrastructure expenditures. As the report's authors point out, this is not a plausible scenario. Europe and Japan face an even steeper climb in population levels if they use immigration to maintain worker/dependent support ratios.²¹ While a continuing stream of immigration will contribute modestly to public finances, it will still leave a substantial problem of pension financing.

Likewise, a strong economy would probably find ways of retaining older workers in the labor force for longer, but this should not be done by cutting benefit entitlements. Indeed, the first aim should simply be to discourage the laying off of workers prior to the retirement age, something which is still common.

Those in receipt of a pension should still be able to work. In the United States, the earnings of those over sixty-five amount to 2 percent of GDP, with those in professional employment and owner-managers looming large. This proportion can be maintained and improved without raising the pensionable age.

PRIVATIZATION: IMPLICIT AND EXPLICIT

The aging of the population certainly supplies a serious hurdle, but one which rich societies should be able to surmount if the burden is broadly shared and if efficient methods for turning contributions into retirement income are chosen. The current crisis of pension provision is exacerbated by the myth that financial markets and commercial delivery are good mechanisms for bringing about intergenerational equity. The decline in the corporate contribution to pension funding must be reversed. With added resources, public retirement systems could efficiently deliver not only basic pensions but also a universal layer of secondary provision.

The neoliberal analysis of the pension problem was embodied in the World Bank report *Averting the Old Age Crisis* (1994), commissioned by Lawrence Summers, then the Bank's chief economist. The report attacked systems of pension provision with a 'dominant public pillar' financed by payroll taxes, on the grounds that this pay-as-you-go method displaces private saving. Private pension delivery was preferred, and it was lamented that so many had no private coverage. Even in the United States and Great Britain, wealthy countries with a mature financial services industry and many fiscal incentives to pension savings, barely half of the citizens reaching retirement have significant secondary provision. The Bank's analysis of the failings of existing models of provision registered some serious issues with the pay-as-you go-system of financing—including the link to unemployment, mentioned above—but largely overlooked the equally grave, or even worse, issues with commercial provision. The report's unremitting hostility to any form of public pension led to a failure to register the often very positive record of public sector pension fund management when compared with corporate or personal schemes run on commercial lines. Instead of proposing ways of supplementing PAYGO finance, with its impressive track record, it proposed simply scrapping it. It refused to address the scope for universal and funded public secondary provision on the grounds that this would give elected governments too much power. Instead, *Averting the Old Age Crisis* argued that every employee should be obliged to enroll in commercial pension plans run by the financial services industry. The state was to offer only a residual safety net, and to maintain its generous tax-relief subsidies, but was otherwise to vacate the field of secondary and prefunded pension provision. Public pension promises were to be downsized, and every employee required to hand over their contributions to a private financial institution.

Recent years have seen varied attempts at ‘pension reform’ in Europe inspired by this type of analysis, leading, after stiff resistance, to little more than benefit cutting. In some cases compulsory public provision has been replaced, just as the World Bank originally proposed, by compulsory private provision. For politicians encountering stiff resistance to explicit privatization, another formula is available, that of so-called ‘implicit privatization’, whereby cutbacks in public provision encourage citizens to take out a private pension plan.

As pointed out above, extensive public provision itself emerged throughout the advanced world in consequence of the market failures of the 1930s and 1940s. The postwar schemes offered a basic state pension to all employees and their spouses, financing this by means of a payroll tax or social insurance contribution. This was true even in the United States, with its strong financial sector and famous individualism. During the Great Depression, private savings had been wiped out and many commercial pension schemes had collapsed. It was this background as well as the pressure of a popular campaign which gave Roosevelt the opportunity to introduce the beginnings of a universal retirement system with the 1935 Social Security Act. The program was extended and made more generous under Truman, Eisenhower, Johnson, and Nixon, with Republicans rallying to its support and the better placed corporations seeing the advantage of all employers being required to make a contribution, so long as they were also able, if they wished, to establish tax-favored schemes on top of the public program.²² Social Security acquired the reputation of being ‘the third rail of American politics’. We are now accustomed to contrasting Anglo-American social arrangements to the welfare and pension regimes of continental Western Europe. But the U.S. Social Security system shares with the latter a universal and redistributive structure—everyone pays in and everyone secures entitlement as a result, but with payout arrangements that favor those on middle and low incomes. While it remains true that U.S. social and political arrangements are generally hostile to redistribution, Social Security did, and does, redistribute from richer regions to poorer ones. Interestingly, many of the so-called ‘red states’ in the U.S. South which went for George W. Bush in 2000 and 2004 are significant net gainers from the Social Security program.²³ This fact helps to explain Bush’s failure to achieve a partial privatization of the program, following his reelection in 2004.

Bush never outlined a detailed plan, but all could see that if workers were allowed to take a portion of their FICA contribution and put it into an individual account, then this would deprive the program of vitally needed revenue. Heavy ‘transition costs’ required federal agencies to borrow \$2 trillion. The president’s own Commission on Social Security had envisaged this option. Such a proposed route to partial privatization raised doubts among some conservatives as well as liberals. The existence of large budget deficits and other large calls on the public purse—the war in Iraq in particular—was also a big obstacle.

The Commission did not help the privatization cause when it failed to recommend a single, clear path to its goal. Instead it put forward three possible ways of doing the job, but they all entailed stiff transition costs and all narrowly constrained employee choice.²⁴ Because of the need to keep down costs, the basic model allowed just six funds to be furnished by a handful of publicly selected suppliers. Even these cautiously constructed vehicles were to be exposed to market risk, which, in pension provision, can take the form of slow erosion as well as sudden reversal. The Swiss system of compulsory private pensions meets this problem by adding a state guarantee of a 4 percent return but in doing so incurs the possibility of future charges on the public revenue. The British sought to establish a cost ceiling on fees of 1 percent of fund value a year, but in 2004 this had to be raised to 1.5 percent because the industry would make little effort to market the product unless this was done.

U.S. Social Security has been under attack for many years now, with some scaling back on benefits, and a rise in contributions, in 1983. The Commission on Social Security set up by Bush had been asked to come up with the best way of ‘saving’—and privatizing—Social Security. Among a number of possible options, it recommended indexing the benefit to prices rather than earnings; the chairman of the President’s Council of Economic Advisors subsequently echoed this.²⁵ While a change to the indexing method is one route to cutting future benefits, another would be a further raising of the official retirement age. Notwithstanding the setback to outright privatization in 2005, some new attempt to weaken the program is likely. Next time, a projected shortfall in revenue might trigger weaker indexation and a raising of the retirement age (as we will see shortly, the former has been the British road to privatization).

A weakening of benefits would not only constitute ‘implicit privatization’ but also lead to greater pensioner poverty. Social Security does not offer much more than bare subsistence to seniors who have no other coverage. Indeed, since it remains contribution based, there are some—especially older women—who do not even get a bare subsistence. So the logic of ‘implicit privatization’ has always been present, with employees encouraged to join private pension schemes by the carrot of tax concessions and the stick of inadequate public provision. Raising the retirement age would be unfair to the many workers who lose their jobs long before the existing retirement age.

Great Britain has a similar mixed system in which private provision is subsidized by public tax relief to the great benefit of the private financial services industry. The key decision here came when Margaret Thatcher ended the practice of increasing the basic state pension each year in line with earnings, substituting instead a link simply to price inflation. Earnings generally rise faster than prices. The British state pension declined from 20 percent of average earnings in 1980, when the change was made, to 15 percent of average earnings in 1997,

when New Labour under Tony Blair won the election. But Blair did not change the basis for calculating the state pension, which has, in consequence, continued to decline and is expected to drop below 10 percent of average wages by 2030.²⁶

A string of otherwise successful politicians have been defeated in their attempts either to privatize, or to slash, public pension programs. Reagan had to back down in 1982, and in Italy in the mid-1990s, the first Berlusconi government was rebuffed after its failed attempt to reform pensions—likewise the governments of Alain Juppé in France and Helmut Kohl in Germany. Even John Major's defeat in 1997 was made the more certain by a widespread pensions 'mis-selling' scandal. Clinton had a group working on the introduction of personal accounts but, once the Monica Lewinsky affair blew up, abandoned it in favor of a robust, and as it turned out popular, defense of Social Security.²⁷ In recent years, politicians broach such moves with more caution, but it must still be wondered why they remain willing to court disaster by tampering with the 'third rail'. The reason is partly, no doubt, that the issue is of intense concern to a powerful lobby. But it is also because there really is a problem of meeting the costs of an aging society. Of course, privatization, whether explicit or implicit, will actually make the problem worse. But not everyone sees this, and cutbacks can, at least, be made to seem responsible.

THE AFFORDABILITY OF BASIC PENSIONS

The advocates of privatization in the United States are encouraged by those who insist that even the modest Social Security and Medicare programs will come to represent an intolerable burden in a few decades. Thus, Laurence Kotlikoff and Scott Burns quote a controversial study which, using 'generational accounting', assessed the combined deficit of Social Security and Medicare as being no less than \$45 trillion, a figure they claim rose to \$51 trillion following new Medicare entitlements agreed to in 2003.²⁸ While it makes sense to anticipate future costs, the species of 'generational accounting' favored by these authors has to be handled very carefully. First, it employs estimates of growth, and of interest rates, projected over such long time spans—a century and a half—that small changes in the assumptions have a huge impact. Second, it adds all future liabilities to get a scary total but counts in only the future taxes that will be paid by living generations. The pay-as-you-go method of financing relies on contributions from future generations to pay the entitlements accrued by current generations. Kotlikoff and Burns write as if there is something deeply immoral and impractical about this. I would readily grant that there should be tight constraints on this financing approach—some have been indicated above—but there is nothing wrong with anticipating that future workers, having had their education and upbringing paid for by their parents and their parents' generation, should be

expected to contribute something to the latter in their retirement.²⁹ Public old-age pension systems simply pool this obligation of children to their parents.

Furthermore the projection offered by Kotlikoff and Burns amalgamates the problems of Social Security and Medicare as if aging alone were the chief problem with both programs. Paul Krugman has urged that while Social Security is very cost-effective, this cannot be said of Medicare, with its largely privatized delivery and with its weaker revenue source. Medicare's projected cost inflation adds disproportionately to the anticipated deficits.³⁰ Kotlikoff and Burns also cite a Social Security trustee estimate which should be taken far more seriously. It warns of a \$3.5 trillion funding gap over seventy-five years and a \$10.5 trillion gap over an indefinite period.³¹

However, critics and defenders of the Social Security program too often focus only on the expense of current U.S. public programs for seniors rather than the full retirement costs of the cohorts concerned. Social Security is just a basic pension—in 2004, its average payout was just under \$12,000 a year. The United States is a very rich country, and certainly has the resources to pay the benefits which contributors have been promised by existing public programs even if this means a marginal increase in contribution rates. The real problem is not maintaining Social Security; it is ensuring that most of the population is not forced to eke out an existence on Social Security alone or, even worse, on a much diminished Social Security plus a much depleted and unreliable commercial supplement. If Social Security survives in its present form, it will supply only 7 percent of GDP at most by 2033, and so far as each recipient is concerned, the program, welcome as it is, will still not supply more than a very modest existence. If Social Security was 'reformed', the problem would be even greater. In 2003, private pensions, both 'defined benefit' and 'defined contribution', only contributed 2.3 percent of GDP, and, for reasons to be explored below, this proportion is unlikely to grow.

The problems of Social Security are exacerbated by the failure to use recent surpluses in ways which materially assist in the paying of future pensions. Because the baby boomers have been at their employment peak, the contributions paid into the U.S. Social Security program have greatly exceeded the outgoings and the trust fund has consequently built up a stack of IOUs from the Treasury. President Clinton tried to establish that these surpluses would remain in a notional 'lock box' and would not be used to cover other government expenditure. But since 2001, this ambition, to which Bush subscribed in the 2000 election, has become a dead letter. The program still has another decade during which it will be taking in more than it pays out and the surplus could be used to pay down the national debt.

The trustees and administrators of Social Security fear that payments will exceed receipts in about 2016, and that by 2042 (if not earlier), it will not be

able to meet its obligations. Indeed, by midcentury the deficit will have reached the \$3.5 trillion figure noted above, leading to cuts of as much as 25 percent in benefits. It bears repeating that these projections are difficult to make, and some critics claim that the assumptions made are too pessimistic. But the short-range deficit projections made by the trustees are far more credible than the indefinite projections made using 'generational accounting'. The proposal to divert a chunk of contributions to personal accounts will, of course, create a funding problem even if one does not already exist. In subsequent sections, I will show that private pension provision has a sorry record and that basic pension provision requires a far more reliable and efficient source of revenue.

Social Security may never encounter the shortfall predicted by the program's trustees, but it would be prudent to have a way of tackling this problem should pessimism about the economy and demographic patterns prove justified. There are three ways of solving the problem: cut back entitlements, boost revenues to the system, or some combination of the two. As noted above, the Bush Commission on Social Security already suggested cutting benefits by indexing them to prices, not earnings, reducing entitlements by perhaps a quarter by 2040. The progressive solution would be quite different, and that would be to find more revenue to pay the fully indexed entitlements originally promised. One possibility would be to raise the threshold above which the payroll tax is no longer paid. In 2004, the bar stood at about \$87,000. Another possibility would be to tax benefits paid to richer recipients. In 2003, Gordon Brown, the U.K. chancellor of the exchequer, raised the payroll tax by 1 percent of income without any upper threshold while pledging the revenue to the National Health system. This proved to be a popular move. Similar action to save Social Security could be very popular also, though care would have to be taken, as we will see, not to hike the payroll tax too high and to be prepared to look to new revenue sources if necessary. With good management and a strong economy, there is good reason to believe that fairly modest increases would suffice.

THE NEED TO SUPPLEMENT EXISTING TAXES

Some urge the advantages of supplementing payroll taxes, which are regressive, by allowing general taxation, especially progressive income taxes, to take the strain of maintaining the adequacy of all pension provision as the baby boomers retire.³² After two decades of tax cutting, there is scope for raising income taxes. If it was needed to ensure a better basic pension for today's retirees at about 30 to 40 percent of average earnings, then taxes should be raised by the required amount. But if the aim is to anticipate some of tomorrow's deficit, when the baby boomers retire, and to put a second pension within everyone's reach, then this would probably overload the existing tax system and put

pensions unnecessarily in competition with other desirable social programs. General tax revenues will anyway have to underwrite many of the extra expenses of an aging society and knowledge-based economy. A levy on assets, rather than income or consumption, is the best fit for meeting an overhang of long-term liabilities. Given the multitude of legitimate, urgent, and necessary calls on the public purse—for more spending on health, education, R&D, and social infrastructure—it would be good if it does not have to furnish all retirement income as well.³³

In Europe there is not much scope for raising the Value-Added Tax (VAT), but in the United States a federal sales tax or VAT could also contribute so long as this was devised in such a way as to strengthen the greatly overstrained budgets of the constituent states, since the latter depend to a considerable extent on sales taxes. The best way of doing this would be to stipulate that most of the yield of the federal levy would be channeled to the states.³⁴ This proviso would limit what was available for federal programs but might ease problems created by state pension deficits. More generally, VAT, sales taxes, and most varieties of consumption tax are not progressive and therefore, in themselves, do not mitigate inequality. They also generally fail to make visible the contribution that an individual or company is making to the wider society.

Much recent writing on the welfare state stresses the need for child-friendly policies and measures to alleviate child poverty. Desirable in their own right, these approaches might also counterbalance the aging trend. For example, better provision of child care, flexible hours, and more parental leave might help to persuade women to have more children and counterbalance rising longevity. These child-friendly approaches have a strong claim on today's tax revenues.³⁵ Addressing the implications of climate change and sustainability will also require large infrastructure investments. If it is at all possible to finance future secondary pensions in ways that leave more resources for other social budgets, or which actually contribute to such budgets, then this would be desirable. I will later outline how a Meidner-style levy on shareholding could help to prefund a universal secondary pension and shore up some forms of secondary provision that are currently in difficulties.

Some object that there is no way to prefund future pensions. They insist that future incomes will have to be met from future production so that the precise financing method adopted does not matter. They even claim that all future pensions will have to be paid out of the earnings of future workers. While there is truth in the initial observation, the conclusions do not follow. Pensions can be paid from property as well as labor incomes, and a curbing of capitalists' consumption would work just as well as a curbing of workers' consumption. A prior claim over the production of the future is set up by the prevailing pattern of property relations, above all by the ownership of stocks and of public and

corporate bonds. The latter instruments ensure that future income will be divided, in the first place, between that accruing to owners of capital and that going to those who sell their labor power. The fiscal policy of the state may modify the distribution of income, but in practice those who own productive assets will still command significant streams of income. While pension provision will always need to make demands on the fiscal capacity of the state, it might well be advantageous for it also to derive supplementary income from capital assets. At present, taxes on labor incomes and consumption are still quite heavy, while levies on wealth or assets are quite light and are widely evaded. It would therefore be good to prefund secondary pension provision, with the accent on capital levies that are difficult to evade.

While alarm over public commitments can be overdone, because the state will retain a capacity to tax, the commercial provision of retirement income has itself been plagued by heavy charges, undue market or sponsor risk, agency problems, information asymmetry, and, last but not least, fund deficits. In 2002-2003, pension fund deficits weighed heavily on the Anglo-American-style economies, as we will see. In an uncertain economic climate, it would not make sense to bail them out using current tax income—it would be better to match them to assets which can deliver future income. Willingness to earmark assets for pension funds does not mean that prefunding has to be handed over to the commercial financial services industry. It does mean that more attention should be focused on making corporations contribute more adequately to the maintenance of the social fabric, without which they would have no customers or employees or profits. Corporate taxes fell from 34 percent of U.S. federal receipts in 1945 to only 7 percent in 2003.³⁶ Corporations have also, as we will see below, closed or frozen pension schemes which require them to contribute to employee benefits.

Paradoxically the advocates of pension ‘privatization’ sometimes find that the only way they can meet objections to their schemes is by allowing a huge role for the state. The ‘personal accounts’ will only come into being thanks either to massive subsidies (tax relief) or to the state compulsion required to oblige citizens to contribute to a commercially supplied pension fund. The authorities will then have a key role in selecting which finance houses qualify for receipt of the new business. In an effort to control costs and protect inexperienced investors the 2001 Bush Commission, as we have seen, proposed that there would only be a few stylized funds available to those with personal accounts to choose between. The highly select group of suppliers might also be allowed to use the existing structure of the Social Security system to collect contributions. These arrangements have nothing to do with the free market and are more reminiscent of the ‘tax farming’ of Europe’s anciens régimes, an arrangement whereby monarchs like Louis XVI of France sold the right to collect taxes

to private financiers for a lump sum. In this case the state is awarding the right to collect a payroll tax in return for transferring its future obligation to pay pensions to a private finance house. There remains the risk that the commercial organization, after collecting these taxes for a few decades, invests them poorly and goes bankrupt. Suppliers are also likely, as with British Stakeholder pensions, to find ways of pushing up charges. If the government itself offers guarantees against default or high charges, then the public treasury could be footing the bill anyway. Whatever happens, private management of pension money hands great power to the fund managers.

Advocates of privatization often claim that entitlements in public pension programs are simply worthless politicians' promises. For some reason they don't say the same about the value of government bonds or the currency. In fact governments don't like openly to repudiate pension promises though they do adopt sneaky, covert ways of achieving the same end. They know that their credit with voters is at risk. This is why the right to basic pensions can often be successfully defended. But the right to something more—a full pension—could become elusive for those who have no claim, or only a very modest claim, on asset income. So long as pension commitments are funded only on a PAYGO basis, that is to say funded out of current taxation, they will tend to be inadequate and vulnerable. Social movements and trade union action will be able episodically to defend decent levels of provision, but if these movements fail to find the path to more durable institutional guarantees then there will always be the risk of weariness and distraction, or of a failure constantly to resist the erosion of popular conquests by the persistent, sapping pressure of capitalist structures and interests. The French system of secondary pensions has, notwithstanding recent setbacks, displayed resilience because it was administered by a statutory body representing both employers and unions. If they had commanded funds of their own they might have been even more successful. In a capitalist society there are a relatively small number of owners of productive assets who will receive the future streams of income which those assets will generate. Those who do not command such productive assets will find that they have to sell their labor power to feed themselves and their families. For the elderly this is a dismal prospect since their labor power has diminished or disappeared, and they do not wish to add to the burdens already carried by their children.

In practice, older people do have nonpension sources of income—notably from earnings or from the ownership of assets—and these will go a little way to meeting overall retirement needs. An increase in the earnings ability of older people requires two things: (1) efficient and comprehensive public health services and (2) employers who are willing to employ older persons. Those older persons who own property or some small enterprise (farm or small business)

will often derive revenue from it, or they may choose to sell or mortgage their stake. However, the latter procedures will also be a source of risk and debt. While these sources of support are not negligible, the great majority of the retired will need pensions paid out of taxes, or from the income of a pension fund which owns such assets as company shares or government bonds. In practice, the asset income derived from pension funds is likely to have a crucial role to play in most parts of the world if the aging society is not to drive up payroll taxes to counterproductive levels, and/or to cut the living standards of the retired.

FAILURES OF PRIVATE PROVISION

Public pension systems are formally universalist, and have been generally financed by payroll taxes and general taxation. The link between contribution and pension usually allows for some redistribution, and for spousal rights, but the employment-based character of the qualifying contributions frequently leaves large numbers of women and minorities without full coverage. Remedying this defect by providing for a citizenship right to a pension, or for basic pension rights established by residence, is not in principle difficult. And as already indicated, the pay-as-you-go mechanism can be supplemented by prefunding. The surplus revenues generated by large cohorts when of working age can be used to redeem a portion of the national debt or to invest in needed infrastructure, both these forms of investment generating future income which can be used to boost pension payments. Far more rare has been an option to allow public trust funds to build up a portfolio of private securities, though this could also secure future income.

There are two main types of private pension scheme, both employing prefunding and both formally voluntary, the defined contribution scheme and the defined benefit scheme. In a defined contribution (DC) scheme, the pension that is eventually paid out depends on the investment performance of the assets acquired by the pension fund, minus fees charged by the supplier and other intermediaries. The defined benefit (DB) model also uses contributions to build a fund but in this case the sponsoring employer promises to pay a future benefit calculated as a proportion of salary and years of service. The role of the fund in the DB scheme is to help the employer deliver on the promise but in the event the risk of a shortfall rests with the sponsor, while in the case of the DC approach, it rests with the individual beneficiary of the fund.

On the face of it the DB approach seems to favor the employee, and this is often the case. In the traditional DB schemes established in the mid-twentieth century, the employer might contribute 12 to 15 percent of salary and promise a pension paid on final salary, or the average of the five best years, or some

such formula. But to get the best out of such a scheme the employee usually needed to stay with the same employer for most of their career and up to retirement age, otherwise the pension would fail to reflect rising prices and promotion or seniority. Designed to enhance 'labor retention' these schemes often had, and have, lengthy vesting periods—for example pension rights might depend of staying with the employer for ten years or until the age of fifty. In the private sector there would be a portability problem—the employee could not without loss transfer from one scheme to another. Public sector DB schemes have offered a better deal because they are often built around a career that allows for some portability from employers in a given sector, so that teachers, for example, can move from one school to another without loss of pension rights. DC schemes have many disadvantages, but these come with greater portability. Indeed, the spread of DC membership in recent years owes a lot to this.

Some of the disadvantages of the DC approach have already been referred to and stem from the vulnerability of the pension savings pot to erosion by charges and market risk. Employers have also been inclined to make a more limited contribution to these schemes and to do so in ways which compound the employee's risk. It is not unusual for employers to contribute 3-6 percent of salary into a DC scheme rather than the double-digit contribution of a typical DB scheme. In the United States, one of the most common ways in which employers contribute to their employees' saving is to offer them a 401(k) plan, so named after a clause in the Internal Revenue code which offers tax relief to savings schemes configured in a certain way. While some employers contribute cash to their employees' 401(k) the scheme has allowed them to contribute shares instead. When Enron collapsed, half the shares in its employees' 401(k)s were in Enron shares largely because this was the form taken by company contributions. Employees can be reluctant to sell their employer's stock, out of loyalty, or because it looks bad; and it can be made difficult or impossible by vesting conditions or other bylaws. In recent times, about a quarter of the assets in 401(k) schemes has been composed of shares issued by the employing company. The legislation following the Enron collapse put in new accounting safeguards but, at employer insistence, did not prohibit the use of company stock in such schemes. In practice, companies find it easier to issue new stock than to make a cash payment, a circumstance to which I will return below when considering better ways of funding pensions.

The extent of coverage an individual elects to have in a DC scheme is largely voluntary. Not only can the employee decide to save little or nothing but in many schemes, including 401(k)s, they can also draw down money prior to retirement. Membership of DB schemes usually has a voluntary aspect—employees may be able to opt out, or opt in at various levels—but most will feel

encouraged to take part. DB schemes may have poor portability, and may not be protected against inflation, but the decision of many employers to close or freeze their DB schemes in effect requires employees to show more determination as well as lessening their incentive. Those on medium or low incomes, or in part-time or temporary work, find it difficult or impossible to save at the level required even to replace their income in retirement. Women and minorities not surprisingly have very inadequate coverage for this reason. So the first weakness of private pension provision is simply its very incomplete coverage of all those who will be needing income in retirement. It is this that explains the finding, noted above, that 18 percent of those approaching retirement will live in poverty and 42 percent will see their income halved. Private pensions can also fail many of those on middle incomes.

Let us first consider personal pension plans. The cost of customizing pensions on an individual basis is always high, and commercial providers spend lavishly on promotion and salaries. Once employees commit to a supplier, they rarely switch—sometimes this will attract penalty clauses. Each pension contract represents a stream of payments over many years. So it is worth spending a lot to snare the savers. Nevertheless, personal plans can work out for some. Because of a buoyant market, some of those who retired in the 1990s, and were able to take maximum advantage of the tax breaks, should have done quite well. But for the majority of low and medium earners the tax breaks are eroded by the high charges—some of which quite legally include the cost of advertising to attract others into the scheme. Even those who faithfully contribute to one scheme for forty years, and are lucky enough to pay charges which only average 1 percent of their savings pot, will find that charges subtracted about 20 percent of the pot. Those who switch schemes, or have a broken contribution record, or who found a more costly supplier, or had to pay for advice, can see a reduction in yield of 40 to 50 percent. If the moment of retirement coincides with low interest rates, then the opportunity to generate a secure income from the final lump sum will be daunting. In the United Kingdom, over the decade 1995-2004 the annuity income that could be bought with each £100,000 in the pension pot dropped from £8,000 to £5,000.

In the United States, those clicking on Microsoft's financial adviser in early 2004 were advised that a couple would need \$1 million if they were to guarantee themselves a retirement income of \$40,000 a year. Acquiring private health coverage would require a similar sum. In other words, to ensure middle-class comfort in old age you had to be a millionaire! The average holding in a 401(k), the most popular U.S. savings vehicle, was \$50,000 in 2000 but 42 percent of participants had account balances of less than \$10,000, while 15 percent had balances greater than \$100,000.³⁷ After the crash of 2000-2002, even the better off mournfully quipped that their 401(k) had shrunk to a 201(k).

In the 1980s and 1990s, when annual returns were often in double digits and interest rates were often quite high, the reduction in yield due to charges still left the saver with what seemed a reasonable contribution to their retirement. Edward Wolff found that about 40 percent of those approaching retirement in 1998 had reasonable coverage. The ending of the share bubble in 2000-2002 and the subsequent weak recovery created a far more demanding environment. First it deflated the savings made by many U.S. and U.K. working people. Following three years of a swooning stock market the position of personal pension funds in the United Kingdom and United States was dire, with fund values down by between a third and a half. In both countries a stock market recovery and a modest increase in interest rates helped to stem further decline in 2003-2005. But the bad years cast a long shadow and make it extraordinarily difficult to believe that average annual returns will be in double digits across the first decade of the twenty-first century taken as a whole. The U.K. Pension Commission, reporting in December 2004, believed that returns in the range 3 to 6 percent were far more likely and that, at this level, explicit industry annual charges of 1.5 percent of fund value, and implicit charges of a further 0.5 percent, were much more of a problem, and likely to lead to average real returns of 2.1 percent, with some being less fortunate than this.³⁸ If interest rates continued to remain fairly low, then the saver's disappointment would be even greater. John Bogle, the founder and former CEO of Vanguard, a finance house owned mutually by its policy holders, gives details of the heavy erosion of savings in 401(k)s and IRAs as a result of charges in the United States.³⁹

The pension elite used to be those with membership in an occupational DB scheme, and many are still better placed than those in DC schemes. Those in the public sector enjoy an implicit government guarantee, something which, at least in the developed countries, makes them much more secure than those with company-sponsored schemes. The only drawback is that sectoral or municipal budgets can be expected to pick up the tab for rising pension costs, so meeting the pension obligation may lead to cutting jobs, salaries, and services. The privatization of public services can also lead to erosion of pension rights. These developments can mean that even some with entitlement in the historically well-placed public sector are suffering pension loss.

Though their membership may be frozen, the traditional DB schemes remain hugely important. They still control large assets—probably around \$3 trillion of assets in the United States and perhaps £300 billion of assets in the United Kingdom—and have many millions of members. While employers can try to freeze or withdraw from these schemes, many are now quite mature. Freely entered into by corporations in more expansive times, they impose legal obligations which cannot easily be shrugged off. Indeed, so considerable are these obligations that they now pose a real threat to the financial good health of some the world's largest and most famous corporations.

It has been estimated that the DB pension funds run by the S&P 500 were underfunded to the tune of \$300 billion at the close of 2002; in the United Kingdom, the DB pension funds of the FTSE 100 had a combined deficit of £85 billion at this time. In U.K. actuaries and auditors allowed employers to skip contributions worth £27 billion over the years 1988-2001, a sum which, if invested at the time, would have covered a half or more of the current funding gap. In the United States, GE went for thirteen years without making a payment to its pension fund. United Airlines went for five years prior to filing for bankruptcy protection in 2002. The pension funds are run by the sponsoring company and used as part of its financial planning. The value of the pension funds was rising with the stock market, and the company-nominated trustees projected that since they would continue to rise at 10 percent a year or more, the employer could take a contribution holiday. In the early years of the downturn, auditors continued to condone underfunding by allowing fund trustees to project unrealistic future returns. But after three years of falling markets this became increasingly difficult, and even a stock market recovery was not enough to make up for lost returns.

Mature pension funds are often worth as much as, or more than, the parent company. This is true of Rolls Royce and Boeing, Ford, and Unilever. Indeed, by 2003 there were many large companies where today the pension fund deficit alone was greater than half the market valuation of the company: GM, U.S. Steel, Colgate-Palmolive, Campbell Soup, Lucent, Goodyear, Marconi, ICI, and BT. Pension deficits themselves eat away the value of a company's stock. The deficit does not, of course, have to be fixed all at once, but the needed measures to reduce the underfunding absorb resources that could otherwise be available for investment. The result is job shedding and slashed investment programs at companies like IBM, Verizon, Corus, and a string of financial service providers. The slow U.S. recovery of 2002-2004 partly reflected the belated funding of pension fund deficits.⁴⁰ Many large U.K. manufacturers also shed jobs at this time but an expansion of public sector employment prevented a rise in unemployment numbers.

It might be asked why corporate sponsors allowed their pension funds to sink in this way. Why didn't they put by reserves in the boom years of the 1990s instead of taking all those 'contribution holidays'? During the 1990s boom, many companies skipped contributions on the grounds that the rise in the value of the fund made it unnecessary to pay them. While short-termism is partly to blame the complicated rules of DB funds penalize overfunding as well as underfunding. Regulations against overfunding seem to have been designed to prevent companies using their pension funds as a tax shelter in which to stow away surplus profits, with the aim of drawing them down later. As it is, DB pension schemes have a strongly 'pro-cyclical' character, promoting overheating during booms and aggravating cutbacks during recessions.

Many members of DB schemes find themselves with a strong claim against financially weak employers. If the experience of U.S. steel workers or airlines is anything to go by, those employees will find that they will be asked to dilute their pension rights in order to save their jobs. Such is the flawed structure of the prevailing DB regime that employees can find it makes sense to agree to such proposals. The flaw in the DB structure is that the pension is guaranteed only by one company, the employer. The risk involved for members is spread over several decades—quite long enough for a company to go from being a favored blue chip to an abandoned hulk.

A good proportion of the 2 to 3 million jobs lost in 2000-2003 in the United States were at companies which had large pension fund deficits. In a previous section I argued that overreliance on payroll contributions in Europe raised labor costs and discouraged employers from creating low-wage jobs. However, the 'stakeholder' features of European corporate organization protected many good jobs in large companies. The U.S. and U.K. pattern is almost the opposite. It allows for the creation of low-wage employment in the service sector but kills off better paid employment in those leading companies which set up seemingly generous occupational pension schemes in the 1950s and 1960s.

Pensions can be looked at as a deferred wage, but they pose a far more difficult problem to the employee and trade union negotiator. If the paycheck bounces, you learn about it right away. But pension promises concern a fairly remote future. The management that offers the pension package will be ancient history by the time the pension has to be paid. So locking in that promise becomes demanding and difficult.

Sponsor risk—the bankruptcy of the employer—is a major problem with defined benefit corporate pension schemes. In 1974, the U.S. government set up the Pension Benefit Guaranty Corporation (PBGC), an insurance scheme for DB pension funds. Employers are compelled to subscribe to the scheme; if anything happens to them, the PBGC will step in and pay a part of the promised pension to the beneficiaries. The scheme has not worked very well. Employers that are in difficulties allow their pension funds to remain underfunded, counting on the PBGC to bail out their employees. Where companies are faced with going under, unions have sometimes condoned underfunding, and agreed to benefit cuts, because they believe that their members put their job before their pension. Where corporations seek bankruptcy protection under Chapter 11, their boards can then ask the bankruptcy court to transfer the pension liability to the PBGC, a move already made by several steel and airline companies, with auto and telecom concerns next in line. In some cases, the bankruptcy courts have ordered corporations which are exiting Chapter 11 after shedding pension liabilities to issue shares to the PBGC in partial compensation for their missed contributions.⁴¹ By 2005, the PBGC no longer had sufficient resources and could be sunk itself by a large bankruptcy. At

the close of 2005 it was \$23 billion in the red and simply did not have the resources to cover chronic deficits which it identified at 270 large corporations. Even in better times, the PBGC only guaranteed a proportion of pension rights.

The insurance approach is expensive to apply to companies which, in the grip of strong cyclical tendencies, rise and fall together. When deficits already loom, and companies are strapped for cash, finding the extra contributions is difficult without cutting back on investment and employment. It might be thought that companies could borrow money—but this is very difficult for those lumbered with pension deficits. Governments are understandably reluctant to step in with public money. After all, the members of an occupational scheme whose pension has been shrunk by 40 percent is still better placed than many of their fellow citizens—a half of whom have little or no secondary coverage. And the members of a DB scheme are still better off than the members of a DC scheme, because employers contribute more to DB schemes and make no promise at all to DC members. But whether an employer offers a DB scheme remains purely voluntary and there is little doubt that the extra expense of insurance will lead to further closures of DB schemes.

So far, public pension entitlements, though somewhat diluted, still remain in something like their old form in many advanced countries. The state's command of assets and ability to levy taxation has been reduced, and this compounds the problem of relying only on taxation for pension provision. A public or social power which commanded more surplus-generating economic assets, and larger fiscal capacities, would be better placed to deliver on welfare promises. It would still require a vigilant public opinion to make sure that there was no slippage but at least the potential resources would be there.

THE ACCOUNTABILITY DEFICIT OF GRAY CAPITAL

While institutional funds loom large, they often incorporate a double accountability deficit—policy holders have little control of fund managers, and shareholders have little control of corporate management.⁴²

Even if only a bare majority of employees benefit, the U.S. model of private pension provision seems to extend share ownership more widely than before. I have already noted that the rate of return is typically eroded by heavy charges. A further problem is that pension fund members or policy holders effectively delegate the ownership rights lodged in their name to commercial fund managers. The latter do not robustly assert the interests of those in whose name the funds are established but instead defer to sponsoring companies and to the wider financial establishment. It is the sponsoring companies that can revoke the fund management contract. In the case of DB schemes, the fund is integrated into the corporation's wider financial strategy. Outside the public sector it is rare for

employees to be given any say in fund management. This is a species of gray capitalism where property rights are at best unclear. Recently it has generated a spate of scandals which testify to its potential for abuse.

The travail of the European and Japanese economies in the 1990s combined with the soaring advance of the U.S. economy led to claims that the United States had found a miraculous formula for sustained growth. But from the perspective of the middle of the first decade of the twenty-first century, things look very different and it is now clear that the institutions of Anglo-American capitalism confront deep problems. The United States is mired in trade and budget deficits, its citizens are heavily indebted, the dot-com bubble is a bad memory, the large telecom gambles came unstuck, the energy traders faked revenues on a vast scale, and accountants, bankers, and lawyers helped to devise the 'off-balance sheet partnerships' and credit derivatives that allowed this to happen. Arthur Andersen, one of the former 'Big 5' accounting firms and an enthusiast for asset privatization, is no more. In the years 1999-2003, a thousand U.S. companies were forced to restate their accounts because of irregularities.

Across the whole U.S. economy, chief executives and their tame boards of directors took shareholders for a hugely expensive ride during the share bubble while awarding themselves ever more extravagant 'compensation'. The boards of the large companies issued stock options to senior executive and other favored employees. They then borrowed money from the banks which they used to buy back the company's shares, thus driving up their price and making their own share options more valuable. Robert Brenner explains that the major U.S. non-financial corporations borrowed \$1.22 trillion in the years 1994-1999 but used 57 percent of this money to buy back company shares while only 15 percent was used for capital expenditure.⁴³ Many CEOs and senior executives realized their options at the top of the market—options represented 19 percent of profits in 2000. By contrast, long-term investors and employees who held company stock took heavy losses. This helps explain a dramatic increase in inequality. When the bubble collapsed, many CEOs had cashed out much of their newfound wealth while employees who held stock in troubled companies lost their savings as well as their jobs. The banks which made loans to these companies were careful to off-load the risk. They created 'credit derivatives' backed by corporate debt. The purchasers of the credit derivatives were very often pension funds. In this way banks passed the parcel while pension funds took a double hit. Partly in consequence, U.S. banks survived the period 2000-2003 in far better shape than they did the recession of 1989-1992.⁴⁴ The rise and fall of Parmalat, the Italian food giant, was fueled by the same 'aggressive accounting' and liability-shifting vehicles devised by the same international banks. Problems at Ahold, Vivendi, and Shell, and controversy over executive compensation at Mannesman, showed that the vices of Anglo-American economics were contagious.

While the banks' balance sheets remained strong, their public reputation wilted. The publication of thousands of cynical e-mails written by analysts to colleagues rubbishing stocks they were recommending to clients has undermined public confidence. There is also a widely acknowledged distrust of the effectiveness of public regulation, notwithstanding new laws (the Sarbanes-Oxley reform of 2002) and an elaborately brokered deal between Wall Street and the regulators in which the former agreed to pay \$1.4 billion in compensation. At one point, the majority of the members of the board of the NYSE were either themselves under indictment or were members of companies under investigation. Among the technical challenges facing regulators are the need to ensure that derivatives are not being used to evade key rules (such as that against insider trading), and also that SPEs and other such devices are not being used to evade corporate taxation. As noted above, corporate taxes fell from 34 percent of U.S. federal receipts in 1945 to only 7 percent in 2003.

In 2003, the tide of financial scandal engulfed the U.S. mutual fund industry. Academic research into their trading patterns revealed that nearly all the leading houses were boosting their turnover, and hence fees, by permitting hedge funds to trade their funds after the 4:00 P.M. close of business. The scandal turned the spotlight on fees that were exorbitant even without 'stale price arbitrage'. At a congressional hearing, a Republican senator denounced the mutual fund industry for being 'the world's largest skimming operation'.⁴⁵ In 2004, New York State Attorney General Eliot Spitzer announced that he had found evidence of widespread bid-rigging and 'contingent commissions' (kickbacks) in the U.S. insurance industry. These various scandals did not concern a few 'bad apples' but reached into a high proportion of the leaders in each sector. They point to 'agency' problems which need to be rectified.

Recent problems certainly show up the dire consequences of the financial deregulation of the 1990s. But they also stem, to a significant degree, from what I have called 'gray capital'—the failure of the pension fund managers, and other institutional investors, successfully to control the new breed of chief executive or to properly represent the interests of the ultimate beneficiaries. Fund managers, brokerage houses, and investment banks do not clamp down on costs or one another. Favors are returned, and 'soft money' circulates. The fund managers of the corporate pension schemes are perfectly aware that their mandates depend on the sponsoring corporations. Moreover, the finance houses which manage pension funds also look on the corporations for much other valuable business. Unless a business is in evident crisis, the fund managers can be relied on to support the chief executive. The public sector pension funds are a little different, and have lately shown bursts of 'shareholder activism'—for example, protesting at the exorbitant extent of executive compensation. On a few occasions they have even removed an underperforming CEO. But the norm is for the fund managers to play a passive and supine role.⁴⁶

A pronounced feature of the U.S. model was accelerating inequality, and a declining propensity to save amongst the great bulk of richer consumers. The rich saw no necessity to save, because the value of their holdings rose with the stock exchange boom, but the generality of employees locked into pension plans continued to contribute the funds which, together with the buybacks, drove up stock prices. The buoyancy of the consumer market also persuaded overseas investors to make acquisitions in the United States, masking the decline in domestic savings.

A major factor in the erratic global capital flows and share bubble of the late 1990s was pension money managed by the major banks, fund managers, and insurance houses. These funds are hugely important in the United States and Great Britain but are also significant in Japan, Australia, Canada, the Netherlands, Switzerland, Brazil, Chile, and Sweden. The fund managers have become notorious for 'short-termism' and the 'herd instinct' as well as for indulging corporate self-aggrandizement and malfeasance. The phenomenon of the pension funds thus represents a massive alienation of social property. Indeed, policy holders often find their own savings being used in ways which damage their own communities for the sake of speculative investment in distant and strange locales. We have seen that the private pension fund industry benefits from large-scale tax relief. This buoyant world of the subsidized private pension funds undermines and eclipses public pension provision yet is bad at turning contributions into retirement income.

STRENGTHS OF PUBLIC SECTOR FUND MANAGEMENT

Contrary to neoliberal dogma, the evidence strongly supports the idea that properly constituted public agencies can effectively discharge the tasks of pension fund management. The case for opposing the privatizing message of the World Bank's 1994 report *Averting the Old Age Crisis* was advanced in an important theoretical paper submitted to a World Bank conference on the future of old-age security in Washington in September 1999 by Peter Orszag and Joseph Stiglitz (at this time, Stiglitz was himself chief economist at the World Bank). The paper, which comprehensively demolished the arguments of *Averting the Old Age Crisis*, may be consulted in a volume which it was subsequently to publish.⁴⁷

The Orszag and Stiglitz paper argued that a well-run public pension system could deliver results that were as good as—or better than—those produced by a well-run private system. The advocates of privatization claimed that commercial competition would ensure that private pensions would be delivered at low cost, but the evidence showed that suppliers chasing pension contracts that were to last a lifetime had a motive to engage in exorbitant marketing expenditure. Furthermore, advocates of privatization generally accepted the need for public

regulation. Yet if the public agency could be trusted with the regulatory function, might it not also be capable of organizing a trust fund?

Orszag and Stiglitz favor the public organization of pensions because of its built-in cost advantage over private provision and because well-staffed public bodies have the capacity to remedy the information asymmetries which afflict the individual when confronted with long-term uncertainty and the wiles of the financial services industry. Indeed there is a bias toward collective provision in pensions because of the expense of marketing and administering millions of individualized schemes and because of the logic of risk pooling and information sharing. Within the commercial pension sector, occupational schemes applying to a large number of workers generally achieve scale economies, and consequently yield a better return, than personal schemes tailored to an individual. And many occupational schemes are not run by commercial concerns and thus save a further element of commercial profit by undertaking their own fund management. The large pension funds run by public sector workers have low costs and reasonable returns. The Californian Public Employee Retirement System (CalPERS), the California public sector workers' fund, and TIAA-CREF, the university teachers' pension fund, are good examples of concerns with returns well above those available from the commercial sector of private pension provision. In occupational schemes, employers absorb much of the administrative costs, and the more people in the scheme, the lower the charges.

State-run schemes share the cost advantages of occupational schemes. Those based on a fund should have much lower costs than private schemes: thus administration and marketing soak up 2 percent of the asset value each year of Chile's famous private pensions funds, the AFPs, while it only accounts for 0.2 percent of the assets of the publicly run Singapore Central Provident Fund.⁴⁸

PAYING FOR UNIVERSAL SECOND PENSIONS:
THE ADVANTAGES OF A SHARE LEVY

My case for universal, prefunded secondary pensions, and noncommercial fund management, complementing a PAYGO-financed basic pension, still begs the question of how the resources for this are going to be raised. I have already argued that conventional tax revenue should be drawn on sparingly or not at all for secondary pensions while remaining central for the basic pension. What scope is there for prefunding pension provision? There are a range of possibilities here, each of which could help to build a pension reserve, some of them particularly well tailored to the long-run nature of the problem. In my view the share levy proposed by Rudolf Meidner, and discussed briefly above, is the most promising. It would have the advantage of accumulating a sizeable trust fund to pay future pensions, it would redistribute wealth, and it would oblige corporations

to make a serious contribution to social expenditure. It would also help to break the impasse that has developed as more familiar attempts to 'tax the rich' have encountered a glass ceiling.⁴⁹ But first I will briefly consider some other possibilities since, faced with a large task, every bit helps.

1. Employee contributions and the 'matching' principle. Employees themselves could and should make contributions to a secondary scheme, according to their ability to do so. It is well established that the best way to build the legitimacy of universal entitlement is to require everyone to contribute. The contribution generates a widespread sense of ownership of the program, as well as a source of finance. In contrast to payroll taxes, the contribution rate should be progressive. The large numbers of U.S. and U.K. employees who earn little more than the minimum wage should be given contribution credits. Caregivers and the unemployed should also receive second pension credits. While employee contributions up to about 5 percent of income will raise serious sums, they will not, by themselves, normally cover the needs of the scheme. If the contribution rates for those on average incomes are pushed too high, then labor costs are raised and job shedding is encouraged, just as with overreliance on payroll taxes. However, savings rates have been very low in the United States and the United Kingdom in recent years so the need is rather to encourage extra savings and this can be done by offering the mass of employees matching funds—they receive \$500 for every \$1,000 a year they put in up to \$4,000. If the resources can be found for such a scheme then the results are likely to be both more effective and more equitable than offering tax relief, since the latter offers a much bigger incentive to the high paid than it does to the low paid. However, the 'matching' approach requires some pump priming, so it does not solve the initial problem of raising resources. There is also the consideration that if employees are to contribute more, then why not employers?

2. Proceeds of public assets or sale of licenses. Governments with plans to license use of the airwaves would do well to vest them in pension funds benefiting all citizens. Nationalization and state ownership often remain the best way of guaranteeing public services—deregulation and privatization have brought a trail of disasters in its wake—and can sometimes yield a revenue surplus. But subsidies are often required for such services. Moreover, some variants of the public ownership model have created nesting grounds for special interests, rather than serving the welfare of all. The ownership of some public assets by democratically accountable and non-commercial pension funds in each region could yield revenue for a useful purpose, and furnish another model of public enterprise, but, other than in oil states, this will only be a supplement.

3. Betterment levies. Governments could also place a tax on any increase in commercial site values—including the land on which shopping malls and luxury apartments are built. The rise in the value of commercial land is invariably the consequence of public infrastructure investments in roads and other amenities. It is therefore especially appropriate for it to be a source of public revenue.

4. Wealth tax. There is also a case for considering a 'wealth tax', though the experience of several European countries suggests that this type of levy is prone to run into serious loophole problems. The reason for this is that the threshold for the tax has to be set quite high if it is not unfairly to penalize small businesses, farms, and owners of homes that have become expensive urban real estate. Like estates duties (death taxes), reasonable exemptions from the wealth tax can be exploited by the truly wealthy. At all events the tax take from wealth taxes is nowhere very significant.

5. A share levy. I have left until last what I believe to be the most appropriate source of finance for pension systems, namely, share levies calculated as a proportion of corporate profit. A crucial problem of pension finance is to restore the employers' contribution, following the switch from DB to DC occupational schemes by many employers. During this same period, corporations have also become very skilled at tax avoidance. Corporations enjoy legal privileges and protections. They could not flourish without a variety of social expenditures. So it is eminently fair to find a way to oblige them to start contributing properly. Simply imposing compulsory cash contributions on the employer is not, however, advisable since this raises their labor costs and inclines them, in recessions, to shed labor. There is also reason to believe that corporation taxes are often passed on to the consumer in higher prices.⁵⁰

Under the share levy the government would require all corporations to issue new shares to a public pension trust fund each year equivalent to 10 percent of their profits. Private corporations and large partnerships might be allowed to issue profits-related bonds instead, while concerns employing fewer than ten people would be exempt. The trust fund would use the resources obtained by the corporate levy to establish secondary pension arrangements for all citizens. In the United States this might include both shoring up the finances of the PBGC and establishing a state-level network of regional social funds which would receive proceeds from the share levy calculated according to the age characteristics of their populations. The various beneficiaries of the share levy would not be able to sell the shares for a lengthy period. Unlike corporation tax, the share levy would not subtract from companies' cash flow. Unlike compulsory financial contributions to each worker's pension pot, it would not swell labor costs or act as a tax on jobs. Unlike corporation tax, the share levy could not be passed on to consumers in higher prices. With multinational enterprises the assessment would be similar to that prevailing for corporation tax and the shares could be either in the local subsidiary or in the parent. Employees would be due to benefit from the fund or funds which received their employers' shares, but these would be pooled on a regional and/or industrial basis so that no fund was over-reliant on any one enterprise. In principle, all citizens would benefit from the future pension income generated by these shareholdings, including those who had spells outside the labor market because they were unemployed, or caring for children or the infirm.

It may seem counterintuitive in the postbubble climate to suggest that shares should play an important part in the prefunding of pensions. However, the trust funds would often hold the shares for lengthy periods to derive dividend income from them. Dividends are much less volatile than share price, making this a reasonable and advantageous strategy. For several decades after the introduction of the share levy the dividends would be reinvested in bonds to introduce an element of diversification. Since shares are long-term assets they are a good match for pension fund deficits.

Over time, the share levy would transfer control of economic assets from individual capitalists to the pension and social security funds. Care would be taken that all genuine pension funds received more than they lost from the workings of the share levy. This method of financing would also furnish a powerful lever to the funds, enabling them to promote good corporate governance and socially responsible investment. The social funds would use their shareholding power to act against business leaders who claim excessive compensation, deny good working conditions and labor rights to their employees, or invest in ecologically dangerous processes for short-term reasons. The national trust fund responsible for the levy could ensure an equitable regional distribution of the resulting assets and could thus help to promote national integration and social solidarity.

The proposed share levy will furnish assets which can immediately offset pension fund deficits, and some of the pooled funds could also serve as an insurance reserve. But the question should be addressed of whether such funding really releases more resources for future pension needs. Since the pensions of the future are paid out of future output prefunding only helps if it transfers real claims on future income streams to the pension fund.⁵¹ The proposed device meets this test since, in effect, it dilutes current shareholdings by a small amount each year transferring the benefit to the pension reserve fund. Whatever dividends the company decides to pay, a portion will now go to pay pensions.

I have suggested that the levy should be set at 10 percent of profits and that the pension fund network, barred from selling the shares it received, would instead hold them to furnish future pensions. In separate calculations for the United States and the United Kingdom, I have been able to show that, on reasonable assumptions concerning rates of return, the levy would be able to raise \$7 trillion by 2035 and to attract a further \$3 trillion in matching contributions. The combined fund of \$10 trillion should yield \$400 billion a year for paying a second pension to every retiree. (Compare these figures with the \$3.5 trillion revenue shortfall which the trustees fear that U.S. Social Security might face by midcentury.) A yield of \$400 billion by 2033 would amount to roughly 2 percent of the then GDP, which it is assumed will have nearly doubled over the period. At this level the share levy would be meeting much of the funding gap estimated earlier from the 2.7 percent of GDP level, applying just to retirement incomes, and at 6.2 percent of GDP, which includes the medical costs of aging. This would be a very useful contribution but still leaves a problem. If the new pension fund regime could cut away excess costs in the financial services industry, then perhaps DB and DC schemes could pay pensions worth 3.3 percent of GDP instead of just 2.3 percent. Earnings of workers over retirement age could also help raise about 2 percent of GDP. In these ways,⁵² the share levy I advocate is very similar to that proposed by Rudolf Meidner, chief economist of the LO (the Swedish trade union federation) in the 1970s and to which reference was made above. As we saw, this plan was strongly

opposed by the family-owned business conglomerates. They rightly saw the plan as a threat to their control of so much of the Swedish economy. The scheme had a number of design features which were exploited by opponents. It appeared to favor private sector workers over public sector workers, and no specific purpose was proposed for these ‘wage earner funds’, as they were called. The scheme gave a big role, some claimed an overweening role, to the trade unions. The Social Democratic government was induced to dilute many of the provisions of the scheme, reducing its incidence, eliminating wage-earner representation, and allowing for cash contributions as well as new issues. Notwithstanding the fact that it was never implemented the plan suffered from the (temporary) backlash against the Social Democrats in the early 1990s. If care was taken to construct the scheme in ways that were intelligible to the great majority, and to ensure an accountable fund, the outcome could well be different. The pressing nature of today’s pension finance issues could give a sharper focus to the scheme.⁵³

It would clearly be easier for large states or regions—the United States, the EU, Japan, China, and India—to introduce the share levy than for smaller states which have less leverage over large corporations. However it should be noted that many states are now able to levy corporation tax at rates of 20 percent or more, and to raise serious sums in this way. In principle the share levy should be no more difficult to calculate or levy than corporation tax. Indeed, as noted above, issuing new shares is easier than finding cash. Of course it remains the case that companies do make routine use of tax havens, SPEs, and so forth to evade tax. The United States and the EU are certainly in a position to curb these practices if they wish.

Most tax havens are effectively subject to one or another of the Organization for Economic Cooperation and Development (OECD) states. Partly because of their need for revenue, and partly because of heightened security anxieties, both US and European authorities are currently seeking to penalize and suppress money laundering and tax evasion. Multinational corporations have long used ‘transfer pricing’ and ‘thin capitalization’ to accrue profit in locales where taxation is lowest. But a determined public authority can insist on proper disclosure as the price of access to its production facilities or market. For simplicity’s sake I have referred to the share levy being based on profit but it would be quite possible to come up with a levy formula that would take some account of turnover and trading margins as well. In the next section I also urge that, for a variety of reasons, the new network of pension funds would undertake its own research and monitoring of corporate behavior; but one of these reasons would be to ensure that corporations were not side-stepping the levy system. By creating new, well-informed, and public-spirited transactors, the network would be supplying the tax authorities with powerful allies.

I have stressed the dangerously ‘pro-cyclical’ features of current DB pension fund arrangements, encouraging asset booms and aggravating downturns. Since

pension expenditures and the revenues needed to pay for them loom so large in national accounts, their precise incidence can be varied in ways that tame the business cycle and counterbalance inflationary or deflationary dangers. When inflation threatens to get out of hand, then employers and staff can be encouraged or obliged to increase their cash contributions; when deflation looms, then the emphasis can fall on asset levies, so demand will not be diminished. John Maynard Keynes—probably influenced by his Cambridge colleague, the ‘liberal socialist’ James Meade—advocated the raising of contributions for a national social security trust fund in 1940 when the outbreak of war threatened to bring about excessive inflation. In a pamphlet entitled ‘How to Pay for the War’, he advocated a system of ‘deferred pay’ as a substitute for increasing income tax. In his scheme, 5 percent of pay would be paid into special accounts controlled by independent social institutions; money from these accounts could be drawn down at a later period to cover health or retirement needs. In Keynes’s scheme a postwar capital levy would ensure that there were enough resources to meet all needs when the draw-downs began.⁵⁴

The Meidner approach included a number of arrangements designed to counterbalance the business cycle, including prefunding secondary pensions, a national round of wage negotiations, and a scheme whereby Swedish companies could stow away tax-free profits in an ‘investment fund’ during boom periods, and draw them down when times were more difficult. These aspects of the Rehn-Meidner model help to explain why, over the long term, Sweden has been able to combine high levels of welfare and pension provision with low levels of unemployment.

THE SHAPE OF THE NEW PENSION REGIME

In most countries today there is still a basic state pension. In the pension regime I am sketching the basic state pension would be raised until it was equivalent to about 40 percent of average earnings (in the United Kingdom it is currently only 15 percent and in the United States approximately 30 percent). This priority should be mainly achieved by means of PAYGO and income tax, though it might be necessary for the public reserve fund elaborated above to make some top-up payments. The basic pension should be paid in full to all citizens (at present many are not entitled to it because of limited contribution records). The universal secondary pension system would aim to supply another 30 percent of average earnings, or of their own previous earnings, up to three times average earnings, whichever was the higher. The matching contribution method would enable people to raise their entitlement. There would be some variation in retirement income, reflecting different contribution records. As in today’s occupational schemes, contributions would be calculated as a proportion of income for

those in employment. Those who were unemployed, or caring for dependents, would benefit from contributions paid on their behalf from the pension reserve.

A ceiling would prevent the rich from building up extravagant levels of entitlement. The principles used here would resemble those already used to calculate a sliding scale of retirement income according to contributions in the U.S. Social Security system and in the U.K. State Earnings-Related Pension Scheme (SERPS). However the addition of matching contributions would enable the pension fund system to give larger savings incentives and rewards to those on a broad range of average incomes than to the rich.

It would be possible simply to add assets raised by the share levy onto existing public pension provision as an extra layer of provision—say, a top-up to existing entitlement under Social Security in the U.S.'s or the U.K.'s existing State Second Pension and SERPS. In this case all the resources raised by the levy would be handed over to the existing trust funds. However it could well be better to create a more diversified network, with a central body channeling the proceeds of the levy to trust funds in every state, province, or region, according to their demographic characteristics. This would create a more decentralized pattern of fund management. And since some regions or states are themselves rather large (e.g., California and New York), the regional bodies could, if they wish, organize networks of their own so long as each citizen received the same entitlements and opportunities.

Using the levy to reinforce Social Security, and to add an extra layer to it, would build on its present strengths. The value of Social Security entitlements to a thirty-year-old employee on average earnings has been calculated at over \$300,000; this is the sum that such a worker would have to pay to an insurance company to acquire such protection. Measures that would reinforce confidence in the system and increase its generosity would be very welcome. Furthermore, using the existing systems of public administration would have cost benefits. Since entitlements in existing schemes are already individualized, several features of the regime I have suggested would be easily incorporated. When an individual moved from one state or region, to another, then they would carry their entitlement with them. And the various trust funds could be made democratically accountable, with actuarial safeguards for generational equity. This regionally distributed model would still mean that there would not be one big public trust fund, with the overaccumulation of power this might imply.

While the above arrangements would have the advantage of simplicity there could be a case during a transitional period for using a portion of the resources from the levy scheme, perhaps a fifth or a third for a decade or two, to guarantee, or boost, the secondary pension promised by existing DB or DC schemes, according to criteria of fairness established by a federal or national pensions board and making use of the experienced staff of the PBGC. Such assistance

might help to persuade all employees, including those in existing schemes, of the benefit of the new arrangements. On the one hand they would receive an extra layer of coverage, together with all other citizens. They would also receive a boost to their existing coverage. Many existing DB schemes are presently in a weakened condition, because they are underfunded. If the new regime could bring succor to such schemes this could extend political support for the levy and reassure many beneficiaries that their small loss as a result of the share levy would be amply made up by their enhanced pension prospects. Another approach would simply guarantee all genuine pension funds that they would receive a rebate sufficient to compensate them for the small annual dilution of their shareholdings due to the levy—at present, pension funds own about a fifth of all shares listed in the United States and the United Kingdom.

In the United States the state-level trust funds could manage the assets themselves or could channel them to a network of registered not-for-profit pension funds. The network would require of all funds that they achieve a publicly audited ‘social investment grade’ before receiving allocations of shares from the levy. Among the features of a fund which might earn it a social investment grade rating would be that it (1) is egalitarian in its internal structuring, (2) gives democratic representation to its members, (3) accepts a code of practice based on social priorities, (4) commits to holding its assets for the sake of future income, and (5) accepts fair rules of distribution of benefits. Distributions from the levy would only be available to socially or mutually owned funds which give some direct representation to benefit holders, qualify as socially responsible funds, and allow for a modicum of redistribution from those with higher lifetime earnings to those with lower lifetime earnings.

In *Banking on Death*, I suggested that individuals might have rights in three different funds—based on region, occupation, leisure pursuit, and school or college—in order to spread risk. All members of a fund—whether beneficiaries or contributors—were to have an equal voice and vote on its policy. However the audit process would ensure that funds kept to actuarially fair payout rates, so that the goal of paying future pensions was not jeopardized by excessive payments in the present. The expertise of universities could be drawn upon to strengthen fund management. The audit process would seek to ensure that pension money was invested in deserving projects and not exposed to undue risk.⁵⁵ Basing pension funds on alumni associations, resident groups, occupational groups, sporting clubs, and other affinity groups would help to promote participation and reduce costs. The audit of funds in the pension network could be undertaken in the United States by the regional Federal Reserve banks.

However, it might be that this is needlessly complicated and that all shares raised by the levy would be best channeled to a pension reserve trust fund in each state or province or region. Whatever organizational form was chosen the pension

funds should be run by elected officials, staffed by skilled professionals, and bound by actuarially fair rules of disbursement. They would be expected to undertake their own research into corporations whose stock they owned and would have an interest in combating tax avoidance since the flow of donated shares would profit. The research conducted by these public trust funds would be made available to all shareholders, since, even after the Sarbanes-Oxley reform of 2002, the mass of shareholders are still at a disadvantage compared to banks. While shareholders would lose by a small dilution of the value of their shares each year, they would gain by the appearance of a new and increasingly powerful agency capable of defending shareholder interests (where the latter don't conflict with social responsibility—e.g., the struggle to rein in executive compensation).

I have stressed that most of the large funds established for public sector employees in the United States are run on a not-for-profit basis and have a quite good investment record. But they remain vulnerable to market shocks and some have not been adequately funded. In some cases this creates a situation where paying promised pensions competes for finance with service delivery and employment. A part of the share levy could be used to top up underfunded schemes.

Pension funds are, of course, a form of capitalist property, albeit a rather strange one, and would remain so even when reformed and 'socially regulated'. It might seem to some of the defenders of the welfare state that all such funds should simply be abolished and replaced by tax-based state provision. In a previous section I attempted to show why this is a misguided view. Even those who remain unconvinced should ponder the practical difficulty of winding up schemes into which many millions of workers have contributed over much of their working life. In the past, labor movements won pension coverage for their members; today, they are left to cope with the crisis of pension provision. In some cases trade unions have themselves secured representation on trustee boards and have discovered the new information and leverage that this can give them even in today's pension regime.⁵⁶

The essential features of the proposed system are the diversity of sources of finance, including the share levy, and the steps taken to foster noncommercial custodianship, social responsibility, and democratic accountability. These principles could be worked out in a number of different ways reflecting different institutional legacies and popular understandings. I have also suggested that in the U.S. case, existing public institutions such as the Social Security Administration, the state-level trust funds, the regional network of Federal Reserve banks, and the Pension Benefit Guaranty Corporation (PBGC) could all be drawn upon to help administer or regulate the new regime. While some of these institutions give representation to elected officials there would certainly be scope for more accountability. At the same time those running the scheme should be bound by actuarially fair principles.

THE NEW PENSION REGIME
AND RESPONSIBLE ACCUMULATION

I have stressed some technical advantages of collective provision as against private and individual provision. Generally, public sector funds have had better costs than private sector occupational schemes, and both of these have been far more efficient than personal pension plans. Many British and American funds have been entrusted to money managers whose behavior has been characterized by 'short-termism', herd instinct, and gullibility which fuelled the share bubble. The responsibility for this state of affairs lies partly with the power of sponsoring companies, as we have seen. It is compounded by the legal status of pension fund trustees and the obligations it lays on them. Under the antique provisions of trustee law in the United Kingdom and the United States, policy holders are treated exactly as women or minors were in the eighteenth century. The policies followed by the pension scheme are not determined by the scheme's existing and future beneficiaries. Instead they must respect a curious financial orthodoxy, stating that the funds must be invested according to the criteria of 'prudent experts' in the financial services industry. If trustees chose to invest in, for example, the development of their own region, then they could find themselves the target of legal action. In consequence the trustees find themselves obliged to ignore the needs of the communities in which their members live. Obviously a new statute for pension funds should allow members to elect the trustees and to have a role in formulating general investment policy. The excesses of the bubble economy have shown the hollowness of the so-called 'prudent expert' rule and already permit a more sensible interpretation of its provisions.

In recent years, the public sector funds have also supported campaigns to improve corporate governance and to promote social responsibility. Responding to pressure from social movements and trade unions, CalPERS announced in early 2002 that it would review all its investments with the aim of promoting fair employment practices. CalPERS controls \$130 billion of investments. It announced that it might withdraw from investments in companies which are implicated in dangerous working conditions and the denial of trade union rights. However, funds which practice socially responsible investment (SRI) now more typically use a strategy of engagement than one of boycott and withdrawal.

'Engagement' involves direct approaches to management, backed up by the use of 'activism' at AGMs, to publicize and penalize bad practice. Funds which benefited from the share levy would naturally own shares in a great variety of concerns and would sometimes be barred from selling those shares. For them this type of engagement—'voice' rather than 'exit'—makes the best sense, as it begins to do even for today's index-tracking funds. Michael Calabrese has pointed out that the strategy of engagement allows social funds to avoid the predicament of 'having no ownership rights at the companies they most want to change'.⁵⁷

The pension trust funds would, thus, be expected to play an active part as shareholders in promoting good corporate governance and the avoidance of socially or ecologically harmful practices. It might be objected that beneficiaries of the pension funds, having a pecuniary stake in profitable abuses, would often turn a blind eye to them. According to this argument, allowing members more of a say would actually diminish the pressure for good governance and social responsibility. But it should be remembered that the investment portfolios will be very diversified. The policy holders' stake in any one corporation will be very small and their financial return will not mature for quite a long time. I believe that in these circumstances it will be possible to persuade majorities that social injustice and ecological irresponsibility are not the best way to build healthy enterprises or to contribute to long-term fund value. After all, the generality of citizens may well have to pay for the cost of this irresponsibility and injustice long before they can claim any tiny and notional superprofit it might generate. The social funds could thus seek both to promote responsible accumulation and to offer the generality of citizens a chance to participate in shaping the future of their communities. The boards of the Anglo-Saxon corporation would, in consequence, also need to be made far more accountable to shareholders.⁵⁸

The pension funds will be receiving a stream of cash as well as shares, because of members' contributions as well as investment income. So they will have money to invest. Regional funds could be allowed, indeed encouraged, to channel a limited portion of their surplus revenue—say, no more than 20 percent—to meeting local investment needs. This might be done by encouraging regional and municipal authorities to float thirty-year development bonds to improve social infrastructure (water, sewage, roads, schools, hospitals, clean energy, etc.). These bonds could then be sold to the regional social security funds. Such bonds would carry the guarantee of the issuing authority and would help to diversify fund holdings. Pension funds have already had considerable success constructing low-cost social housing. While there should be limits, so that risks do not become overly concentrated, Gordon Clark points out that the experience of such investments, as undertaken by trade union-run funds, has been very positive.⁵⁹ Similarly Peter Self has proposed that 'super-annuation funds' should be made available for

longer-term investments which would yield environmental benefits (such as more durable products or energy savings), or which would make a socially informed use of the many new and disturbing inventions (such as genetic engineering) which would otherwise be left to commercial exploitation.⁶⁰

Measures encouraging corporate social responsibility should be seen as a complement rather than an alternative to legislation, the more so since the new regime would itself require legal backing. There will be bad practices which

should simply be outlawed, and other usages which it may be more appropriate to limit. The internal reinforcement of good practice at which the new pension trust funds should aim would have the further advantage that it could help to discourage bad practices in all areas where the enterprise was active as an investor or purchaser, including those outside its home jurisdiction.

My proposal that pension funds should be allowed and encouraged to follow 'socially responsible' policies was singled out for criticism in some reviews of *Banking on Death*—notably those by *The Economist*; by John Chown, a tax specialist in the *TLS*; and by Howard Davies, the then-director of the U.K.'s Financial Services Authority, in *The Guardian*.⁶¹ It was urged that pension contributors would only accept traditional profit-maximizing approaches to investment. But this objection underestimates how discredited such strategies are in the wake of the late 1990s share bubble. And it fails to register the new respectability of SRI.⁶² Both the NYSE and the FTSE now organize SRI indices. These are early days, and the procedures and criteria used in drawing up such lists are still primitive. In the future they will be refined and elaborated, not abandoned. Indeed some observers believe that the day of the 'universal investor', whose investments are so diversified that they do not properly have 'externalities', has already dawned.⁶³ The true interests of beneficiaries do not automatically entail benign and progressive policies, but they do offer scope for constructing arguments and campaigns which will methodically target the irresponsible practices that shift cost and risk to the wider community. Such is the complexity of the market system that gains in one area may well lead to off-setting losses in another. But, over time, the incremental logic would be to stimulate social invigilation and to furnish those campaigning against corporate abuses with significant allies within the corporate structure itself.

Any reform of pension funds aimed at making them engines of social self-management should take heed of the experiences of each country and in particular of the different historic form of social conquests. It would be absurd to introduce Anglo-Saxon-style individualized pension plans to a country where they were unknown only to reform towards a more collective model. Paradoxically, the global spread of stock markets makes share levies possible and necessary in a widening circle of countries. At the same time, many large firms would like to be listed on one of the U.S. exchanges, but for this to happen they must conform to U.S. governance regulations.⁶⁴ These developments also increase the need for robust regulatory institutions, capable of evaluating annual accounts, and, in the case of public utilities, prices and programs of investment. It is usually not difficult to see the ways in which the share levy and the funded approach can be used to strengthen existing systems of pension provision.

The proposed pension fund regime would gradually bring about a restructuring of economic relations in the direction of a sort of 'stakeholder capitalism',

with communities and employees having a collective stake in corporate property.⁶⁵ There would be much greater equality between citizens, since every citizen would have a significant stake in the property regime. Membership in a fund would carry with it the right to regular information and consultation on the fund's policies. The share levy would, over time, transfer the ownership and control of decisive assets into the hands of working people and the citizens generally. The device would continually check market-related tendencies towards inequality within its jurisdiction. It would give citizens and workers real leverage over the economic process as a whole, not simply the workings of a given enterprise, as in some schemes of worker self-management. There would be no encouragement to enterprise egoism, and no unhealthy concentration of risk, as in some employee stock ownership plan (ESOP) schemes. Employees and citizens would themselves have to address the tensions and trade-offs between current and future interests. They would do so within a framework that did not, as in today's 'financialization' and 'generational economics', reduce future needs to present values, or assume that every arrangement and relationship should be abandoned once a financially superior alternative is sighted. The fact that decisive assets are held by noncommercial funds will allow them to weigh non-commercial considerations and will, at least partially, 'decommodify' the social entity exercising ownership. Social movements and workforces would have greater scope to influence investment decisions.

The new pension fund regime would not suppress market relations and would still make use of market signals. It would thereby hope to simplify price formation and avoid the difficulties and complexities of nonmarket price formation and coordination, as in many variants of planned economy or participatory economics. The combination of markets and of a species of share ownership would still yield decisions, and determine comparative prices, more economically than procedures that require everyone to inform themselves about, and participate in, every decision. The latter not only is cumbersome but also can find it difficult to allocate voting power (since, for example, the workers at a larger enterprise should not always outvote the workers at smaller one).⁶⁶

The proposed pension fund regime has an affinity with the experiment in 'participatory budgeting' in the Brazilian municipality of Porto Alegre,⁶⁷ and with the various proposals for 'socialization of the market' advanced by Diane Elson and Nancy Folbre.⁶⁸ The institutional models elaborated by Roberto Mangabeira Unger and John Roemer might also be drawn upon to give it greater coherence.⁶⁹ Unlike such models, the proposed regime of 'responsible accumulation' aims to address the specific failures and vulnerabilities of 'gray capitalism'. While it addresses some sources of inequality, unemployment, exploitation, and alienation, it will not remove them all. For example, though it might offer some openings to 'fair trade', it might make little direct impact on international inequality—except

to the extent that more egalitarian countries tend to be less mean in their trade and aid policies. Employees in the advanced countries might be persuaded that they should use their new leverage with multinational corporations to encourage better labor standards. Doing so would help to discourage a business strategy based on driving down labor costs and replace it with one orientated to developing the potentially huge domestic market in such emerging economies as China and India—better labor standards and living conditions are needed to help maintain the momentum of growth in these countries. This is the direction that Japan, South Korea, Taiwan, and Singapore have already followed, and it furnishes better results than multiplying sweatshops.

The new regime might also prove to be unstable, or transitional to some other, hopefully more equitable and advanced regime. At a certain point the remaining structures of capitalism might well need to be replaced or transcended to the extent that they generated new types of inequality, insecurity, and alienation. My own guess would be that such a regime would not simply suppress all the institutions of ‘financialized’ capitalism but would find progressive and democratic uses for some of them in an increasingly noncapitalist context.

While my proposals may seem fairly limited from a radical anticapitalist perspective, they are likely to be far-reaching enough to provoke stiff resistance. The proposed measures give the majority tangible gains and build on already functioning institutions. But many already own shares or have membership in a pension scheme, and they would need convincing. Share ownership is heavily concentrated among the rich but people who owned shares worth anything from a few thousand dollars to \$50,000 could be made to feel that the measure was harming their interests, even though the implicit tax was a very modest one and even though they would benefit from the new, universal layer of coverage. Existing shareholding wealth would be diluted by less than 1 percent a year, on average. Moreover, some shareholders might appreciate the new institutional pressure for good governance. Chief executives might not welcome the new investors, but the share levy would pose less problems than do corporation taxes, since the levy makes no cash demands on the company—it simply directs the dividends to a different group of shareholders. The measures would not, of course, be welcome to many CEOs or most of the very rich but the important task would be to persuade the great majority of citizens and employees that they were practical, reasonable, and responsible.

Members of existing schemes would also need to be reassured and persuaded of the merits and justice of the share levy. Those in schemes that are not in deficit might be inclined to oppose their employer being levied for a universal system. As noted above, it could be arranged that every genuine pension fund received more than it lost from the share levy. But beyond the arithmetic of cost-benefit, as many as possible would need to be won over to the idea that the pensions and

aging society crisis is a major one and needs to be addressed by radical measures. Curiously, conservative or neoliberal commentators are usually more inclined to argue this, while straight liberals criticize, as does Paul Krugman, those who ‘perceive the issue of an aging society not as it is—a medium-sized issue that can be dealt with through ordinary changes in taxing and spending—but as an immense problem that requires changing everything.’⁷⁰ It could well be that the U.S. Social Security problem by itself is only medium-sized, but if the need for secondary pensions and medical care is taken into account then ‘the issue of an aging society’ is indeed ‘immense’ and requires changing a great deal. The United States could fail to address the problem, and try to muddle through, but only at the cost of an explosion of poverty and distress.

The share levy robustly addresses the yawning crisis of pension provision. It could raise large sums at a time when the extra costs of an aging society, a knowledge-based economy, and ecological shocks will be immense. They could also help to subsidize free time and freely chosen work. There are few alternative proposals which can claim the same. Moreover the interlinked proposals are all based on tendencies or practices already present in today’s ‘gray capitalism’, and their suggested rearrangement into a more coherent, democratic, and accountable schema is, I believe, consequently deserving of the name ‘real utopia’.

NOTES

1. Steven R. Weisman, *The Great Tax Wars* (New York: Simon & Schuster, 2003), 32; and W. Elliot Brownlee, *Federal Taxation in America* (Cambridge: Cambridge University Press, 1996), 26.

2. A point stressed in the classic account of the rationale and limits of pay-as-you-go: Paul Samuelson, “An Exact Consumption-Loan Model of Interest with or without the Social Contrivance of Money,” *Journal of Political Economy* 66 (December 1958): 467-82.

3. The shared burden solution was first outlined by Richard A. Musgrave, “A Re-appraisal of Financing Social Security,” in Richard A. Musgrave, ed., *Fiscal Doctrine, Growth and Institutions*, vol. 2 of *Public Finance in a Democratic Society* (Brighton, UK: Harvester Wheatsheaf, 1986), 103-22.

4. I give examples in Robin Blackburn, *Banking on Death or, Investing in Life: The History and Future of Pensions* (London, Verso 2002), 74.

5. Jacob S. Hacker, *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (Cambridge: Cambridge University Press, 2002), 124-78.

6. See Gérard Dumenil and Dominique Lévy, “Class and Income in the United States,” *New Left Review*, no. 30 (November-December 2004): 105-33.

7. Gerard Hughes and Adrian Sinfield, “Financing Pensions by Stealth,” in *Pension Reform in Europe*, ed. Gerard Hughes and Jim Stewart (Cheltenham, UK: Edward Arnold, 2004), 163-92, esp. 182.

8. See Blackburn, *Banking on Death*, 65-78, 266-79. See also François Charpentier, *Retraites and fonds de pension* (Paris: Fayard, 1998). For Japan and Singapore, see,

respectively, Bernard Ecclestone, *State and Society in Postwar Japan* (Oxford: Oxford University Press, 1989), 97; and Michael Hill and Lian Kwen, *The Politics of Nation-Building in Singapore* (London: Routledge, 1995).

9. Directorate-General for Economic and Financial Affairs, European Commission, Economic Paper no. 170, May (Brussels: European Commission, 2002). For wider European problems, see Andrea Boltho, "What's Wrong with Europe?" *New Left Review* 2, no. 22 (July-August 2003): 5-26.

10. A quantitative study of continental European unemployment concludes that 'the rise in labour taxes since 1970 has accounted for almost half of the rise in long-term unemployment'. Christophe Planas, Werner Roeger, and Alessandro Rossi, "How Much Has Labour Taxation Contributed to European Structural Unemployment?" Directorate-General for Economic and Financial Affairs, European Commission, Economic Paper no. 183, May (Brussels: European Commission, 2003), 12. Undeniably there is no single explanation for high levels of unemployment in Europe in recent decades. My reference to the probably negative impact of regressive payroll taxes is quite distinct from attempts to throw the blame on decent levels of benefit. It is the best way to finance those benefits that I address here, and in what follows. In the mid-twentieth century, a broad range of liberal and left economists, including Keynes, James Meade, Nicholas Kaldor, and Maurice Dobb, saw taxing the rich by means of progressive income tax, capital levies, death duties, taxes on 'excess profits' and 'unearned income', property taxes and extensions of public ownership as the best way to finance social expenditures (see Martin Daunton, *Just Taxes: The Politics of Taxation in Britain, 1914-1979* [Cambridge: Cambridge University Press, 2002]). I will later be urging a return to this tradition.

11. Taggart Murphy, "Japan's Economic Crisis," *New Left Review*, no. 1 (January-February 2000): 25-52.

12. Musgrave, "A Re-appraisal of Financing Social Security."

13. Pensions Commission, *Pensions: Challenges and Choices, the First Report of the Pensions Commission*, December (London: HMSO, 2004), 17.

14. Joachim Palme, "Swedish Welfare Policy," in *Pensions in Europe*, ed. Gordon Clark and Noel Whiteside (Oxford: Oxford University Press, 2003), 144-67.

15. See Rudolf Meidner, *Employee Investment Funds: An Approach to Collective Capital Formation* (London: Allen & Unwin, 1978). For a discussion of the fate of the plan, see Jonas Pontusson, "Sweden: The People's Home," in *Mapping the Left in Western Europe*, ed. Perry Anderson and Patrick Camiller (London: Verso, 1994); and for the overall context, see Jonas Pontusson, *The Limits of Social Democracy* (Ithaca, N.Y. Cornell University Press, 1992).

16. Edward N. Wolff, *Retirement Insecurity: The Income Shortfall Awaiting the Soon-to-Retire* (Washington, D.C.: Economic Policy Institute, 2002).

17. For Laslett's visionary outline of the 'Third Age' as a life stage with huge potential, see Peter Laslett, *The New Map of Life*, 2nd ed. (Basingstoke, UK: Macmillan, 1996).

18. John Myles, *Old Age in the Welfare State: The Political Economy of Public Pensions* (Lawrence: University of Kansas Press, 1989).

19. Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, N.J.: Princeton University Press, 1990).

20. United Nations, *Analytic Report*, vol. 3 of *World Population Prospects: The 1998 Revision* (New York: United Nations, 2000), 168. For an analysis of aging and associated demographic trends, see Goran Therborn, *Between Sex and Power: Family in the World, 1900-2000* (London: Routledge, 2004), 227-60, 288, 308-9.

21. UN Population Division, *Replacement Migration* (New York: UN Population Division, 2002), 77. Using this study Neil Gilbert points out that so far as Europe is concerned, 'To keep a constant relationship between the number of people aged 15 to 64 and people of 65 years of age and over requires an influx of over 1.3 billion people over the next 50 years.' Neil Gilbert, *The Transformation of the Welfare State: The Silent Surrender of Public Responsibility* (Oxford: Oxford University Press, 2002), 34. This book furnishes a good summary of the recent erosion of public provision, though the author's apparent assumption that this is an inevitable process is highly questionable.

22. For a comparative account of employers' varying responses to universalistic, public programs of social insurance, see Peter Swenson, *Capitalists against Markets* (Cambridge: Cambridge University Press, 2002).

23. The regionally redistributive effects of Social Security are stressed by James K. Galbraith et al., "The U.S. Model," *New Left Review* 237 (1999).

24. I discuss the proposals of Bush's Commission in Blackburn, *Banking on Death*, 413-20, 435-45.

25. Edmund E. Andrews, "From Bush Aide, Warning on Social Security," *New York Times*, December 2, 2004.

26. For 'implicit privatization', see Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994), 71. I discuss the fate of the public pension in the United Kingdom in Blackburn, *Banking on Death*, 279-348.

27. I explore these events in chs. 4, 5, and 6 of Blackburn, *Banking on Death*.

28. Laurence Kotlikoff and Scott Burns, *The Coming Generational Storm* (Cambridge, Mass.: MIT Press, 2005), 68.

29. For a critique of 'generational accounting', see Dean Baker and Mark Weisbrot, *Social Security* (Chicago: University of Chicago Press, 2000), 38-53; and Peter Diamond, "Generational Accounts and Generational Balance: An Assessment," *National Tax Journal* 49, no. 4 (1994): 597-607. See also Blackburn, *Banking on Death*, 369-76.

30. Paul Krugman, "The Future of Social Security," *New York Review of Books*, March 10, 2005.

31. Kotlikoff and Burns, *The Coming Generational Storm*, 71. Unlike many advocates of privatization, Kotlikoff and Burns accept that there are severe cost problems with commercial fund management: they advocate winding up the Social Security program, abandoning pay-as-you-go, and replacing it with a sales tax (for current pensions) and a publicly managed savings program based on investment in a global index of stocks (for future pensions).

32. This is the conclusion of some of the best recent writing on pension problems. See John Myles, "A New Social Contract for the Elderly?" in *Why We Need a New Welfare State*, ed. Gosta Esping-Andersen, Duncan Gallie, Anton Hemerijk, and John Myers (Oxford: Oxford University Press, 2002), 130-72; and Nicholas Barr, *The Welfare State as Piggy Bank* (Oxford: Oxford University Press, 2001).

33. For a critique of attempts to underwrite all spending programs from income taxes while practically ignoring asset levies, see Gar Alperovitz, *America beyond Capitalism* (Hoboken, N.J.: John Wiley, 2004), 14-27.

34. A federal sales tax would counteract undesirable tax competition between the various states. For the advantages of a universalistic tax regime where everybody pays and everybody benefits, see Roberto Mangabeira Unger, *Democracy Realized* (London: Verso, 2002).

35. See, e.g., Gosta Esping-Andersen's contributions to Esping-Andersen, *Why We Need a New Welfare State*; and Nancy Folbre, *The Invisible Heart: Economics and Family Values* (New York: New Press, 2002).

36. Alperowitz, *America beyond Capitalism*, 15.
37. Arthur Levitt, *Take on the Street* (New York: Pantheon, 2002), 257.
38. Pensions Commission, *Pensions*, 214-24.
39. John Bogle, *The Battle for the Soul of Capitalism* (New Haven, Conn.: Yale University Press, 2005), 139-91.
40. I have more on this in Robin Blackburn, "The Great Pension Crisis," *The Nation*, February 16, 2003; and in Robin Blackburn, *Age Shock and Pension Power* (New York: Verso, 2006), ch. 4.
41. Michael Schroeder, "Big Stakes in Ailing Airlines Raise Questions for U.S. Pensions Agency," *Wall Street Journal*, November 3, 2005. While accepting shares in these weak companies does raise questions, as the writer of this report says, the courts thought that the Pension Benefit Guaranty Corporation (PBGC) was better off receiving these assets rather than nothing. Below I will consider the rather different proposition that strong as well as weak companies should be obliged to pay all or most of their PBGC contributions in the form of their own shares, giving the insurer a more balanced portfolio.
42. I explore this in Blackburn, *Banking on Death*, 115-23; and in chap. 4 of Blackburn, *Age Shock and Pension Power*. See also the excellent study by Michael Useem, *Investor Capitalism* (Cambridge, Mass.: Harvard University Press, 1996).
43. Robert Brenner, "The Boom and the Bubble," *New Left Review*, new series no. 6 (November-December 2000): 5-44, esp. 24. See also the expanded account in Robert Brenner, *The Boom and the Bubble* (London: Verso, 2002).
44. For the role of credit derivatives, see my "The Enron Debacle," *New Left Review* 14 (March-April 2002): <http://www.newleftreview.net/NLR24802.shtml>. For the scope of the scandals, see also Nomi Prins, *Other People's Money: The Corporate Mugging of America* (New York: New Press, 2004); and Abraham L. Gitlow, *Corruption in Corporate America: Who Is Responsible? Who Will Protect the Public Interest?* (Lanham, Md.: University Press of America, 2005).
45. John Plender, "Broken Trust: The Mutual Fund Scandal Shows How a Flawed Business Culture Conspires against Responsible Investing," *Financial Times*, November 21, 2003.
46. Robin Blackburn, *Banking on Death*, esp. 99-225. See also Teresa Ghilarducci, *Labor's Capital: The Politics and Economics of Pension Funds* (Cambridge, Mass.: Harvard University Press, 1992).
47. Robert Holzmann and Joseph Stiglitz, eds., *New Approaches to the Old Age Crisis* (Washington, D.C.: World Bank, 2001). In February 2005, the World Bank published a further report retracting the wholesale condemnation of public pension systems. See "Pension Reform: Second Thoughts on the Third Age," *The Economist*, February 19, 2005.
48. World Bank, *Averting the Old Age Crisis* (Washington, D.C.: World Bank, 1994), 142, also at http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000009265_3970311123336.
49. See the variety of problems registered in the collection edited by Joel B. Slemrod, *Does Atlas Shrug? The Economic Consequences of Taxing the Rich* (New York: Russell Sage Foundation, 2000).
50. Joseph A. Pechman, *Federal Tax Policy* (Washington, D.C.: Brookings Institution, 1983), 135-40.
51. This point is stressed in Barr, *The Welfare State as Piggy Bank*, 146-47, where this author points out that pre-funding only helps if it reduces future spending (e.g., servicing the national debt), sets aside resources to meet future needs, or helps to raise future output. The proposed scheme fits the bill because it would (1) build up socially owned assets which count against the national debt, (2) transfer claims on future dividend

income, and (3) certainly aim to contribute to raised output by encouraging effective and responsible shareholding.

52. I assume here that profits will grow at 2.5 percent a year and that the trust fund will earn returns of 5 percent a year; advocates of privatization, such as Martin Feldstein, usually assume much higher rates of return (i.e., either 7 percent or 9 percent). For these calculations and several refinements to the levy scheme, see Robin Blackburn, "The Great Pension Gap," *Challenge: The Magazine of Economic Affairs*, July-August 2004, 91-112. I present a similar, but more elaborate, argument for the UK in Robin Blackburn, "How to Rescue a Failing Pension System: The British Case," *New Political Economy* 9, no. 4 (December 2004): 559-80.

53. Meidner, *Employee Investment Funds*; and Jonas Pontusson, "The Swedish Home in Danger," in *Mapping the Left in Western Europe*, ed. Perry Anderson and Patrick Camiller (London: Verso, 1994). See also Pontusson, *The Limits of Social Democracy*.

54. John Maynard Keynes, "How to Pay for the War," in his *Collected Writings*, vol. 9 (London: Macmillan, 1972).

55. I explore such possibilities in *Banking on Death*, 465-539.

56. For a collection which throws much light on this experience, see Archon Fung, Tessa Hebb, and Joel Rogers, eds., *Working Capital: The Power of Labor's Pensions* (Ithaca, N.Y.: Cornell University Press, 2001).

57. Michael Calabrese, "Building on Success: Labor-Friendly Investment Vehicles and the Power of Private Equity," in Fung, Hebb, and Rogers, *Working Capital*, 93-127, 120.

58. Some of the problems here are addressed by William Greider, "The New Colossus," *The Nation*, February 15, 2005.

59. See Gordon Clark, *Pension Fund Capitalism* (Oxford: Oxford University Press, 2000), 210-34.

60. Peter Self, *Rolling Back the Market: Economic Dogma and Political Choice* (Basingstoke, UK: Macmillan, 2000).

61. "Matters of Life and Death," *Economist*, August 30, 2002; John Chown, "Live Long, Work Long," *Times Literary Supplement*, August 23, 2003; and Howard Davies, "Cracking the Nest Egg," *The Guardian*, August 24, 2003.

62. For a guide to SRI by an established practitioner, see Amy Domini, *Socially Responsible Investing: Making a Difference and Making Money* (Chicago: Kaplan Business, 2001).

63. See James Hawley and Andrew Williams, "The Emergence of Universal Owners," *Challenge* 43, no. 4 (July-August 2000): 43-61. See also the writings of the 'share activist', Robert Monks, *The New Global Investors* (Oxford: Oxford University Press, 2001).

64. Gerald F. Davis and Christopher Marquis, "The Globalization of Stock Markets and Convergence in Corporate Governance," in *The Economic Sociology of Capitalism*, ed. Victor Nee and Richard Swedberg (Princeton, N.J.: Princeton University Press, 2005), 352-90.

65. For a rather similar approach, see Alperowitz, *America beyond Capitalism*.

66. I explore some of these problems in Robin Blackburn, "Fin de Siècle: Socialism after the Crash," *New Left Review* 1, no. 185 (January-February 1991): 5-66; also published in Robin Blackburn, ed., *After the Fall: The Failure of Communism and the Future of Socialism* (London: Verso, 1992).

67. Paul Ginsborg, *The Politics of Everyday Life* (New Haven, Conn.: Yale University Press, 2005), 103-6.

68. Diane Elson, "Market Socialism or Socialization of the Market?" *New Left Review* 1, no. 172 (November-December 1988): 3-44; and Nancy Folbre, *The Invisible Heart*, 209-32.

69. See Roberto Mangabeira Unger, *Democracy Realized* (London: Verso, 2003); and John Roemer, *The Future of Socialism* (London: Verso, 1994).

70. Paul Krugman, "America's Senior Moment," *New York Review of Books*, March 10, 2005.

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