

Making Capital Socially Accountable: An Introduction to Robin Blackburn and Ewald Engelen

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At the core of the traditional socialist critique of capitalism was the view that when investment decisions were made exclusively on the basis of private, profit-maximizing calculations, the resulting patterns of capitalist investment and economic growth would be both harmful to many people and in the long term collectively irrational. Three familiar reasons for this diagnosis are particularly important. First, private profit-maximizing investments do not take into account negative externalities, and thus a wide range of “public bads”—pollution, resource depletion, social disruption, job dislocations, etc. and so forth—are likely to be generated by profit-maximizing investments. Second, investments driven exclusively by private profit maximization will lead to an under-provision of public goods, particularly of things like skills and infrastructure. And third, private profit-maximizing investment will tend to generate significant concentrations of wealth, and such wealth not only confers power to actors in the market, but also enables them to deploy their economic power for political purposes, thus undermining democracy.

In response to these deficits, socialists traditionally proposed two sorts of solutions. The first strategy, favored by most social democratic parties, left private ownership and profit maximization largely intact, but used the affirmative state to try to counteract in various ways their harmful effects: regulations were designed to prevent negative externalities or internalize their costs; the state directly provided public goods neglected by the market; and various redistributive interventions tried to counteract at least some of the effects of concentrations of wealth. The second solution was to challenge the private ownership of capital

itself through the creation of a public sector of state-owned enterprises in which investment would be dictated at least in part by social priorities rather than simple profit maximization. In its most radical form, this led to the creation of state-run economies in which private ownership and profit-maximizing investment were largely marginalized.

In recent decades, both of these solutions to the problem of the social control over capitalist investment have lost much of their political support. The collapse of the state-run socialist economies and the privatization of state enterprises within capitalist economies have drastically reduced the role of public ownership in shaping the patterns of capitalist investment. And the general assault on the affirmative state, driven both by the rise of neoliberalism and by the pressures of globalization, has undercut many social democratic regulatory interventions. While it is certainly not the case that socially directed regulation of investment has been completely dismantled anywhere, at the beginning of the twenty-first century in many capitalist countries, the constraints on private profit maximization are much weaker than in the past.

Many people have hailed this relative unfettering of capitalist investment, accepting the neoliberal doctrine that the closer we can get to the utopia of the *laissez-faire* market, the better capitalist economies will function. Others continue to acknowledge the negative effects of a purely private profit-driven dynamic of capitalist investment, but believe that there is no longer anything much that can be done about this. Under conditions of globalized financial markets and the easy movement of capital from one jurisdiction to another, efforts to impose significant regulations—it is feared—will only trigger disinvestments and capital flight. Thus while capitalism still poses problems of negative externalities, inadequate public goods, and concentrations of wealth and power, our capacity to counteract these processes has greatly diminished.

This is the economic and ideological context in which a conference on “Pensions and the Social Control of Capital” was held in 2003 as part of the Real Utopias Project.¹ This conference explored a range of possible institutional devices for imposing significant social direction on the pattern of capitalist investment. The general idea is this: there already exist in capitalist societies large pools of capital that are controlled by public and quasi-public bodies. Endowments of public universities and pension funds of unions and governmental units are typical examples. Modest efforts occur, from time to time, for these kinds of capital pools to be used to impose social constraints on investment. Perhaps the best-known example was the concerted effort to divest university endowments from investments in South Africa during the apartheid period. From time to time, certain kinds of pension funds have also vetted investments on the basis of some criterion of social responsibility. More radically, in the 1970s in Sweden, unions and the Left of the Social Democratic Party proposed that union-run wage-earner funds be used to gradually over time

gain significant control over Swedish corporations. The proposal came under concentrated attack and was modified to such an extent that the final version lost these radical features.

The question, then, is whether a broad institutional redesign of the rules and practices governing such public capital pools would enable them to play a much more significant role in constraining capital, of imposing democratic direction and social priorities on accumulation. In particular, pension funds already constitute a vast pool of capital, and under various proposals to convert existing pay-as-you-go tax-funded public pensions into asset-based pension schemes, this pool is likely to increase significantly in the future. Is there a way of organizing and funding such large, national public pensions in such a way that they can be used proactively to discipline corporations and reduce the capacity of capital to escape public regulation? Should such designs emphasize the power of “exit” by restricting investments to “socially responsible” firms, or should they also use “voice” by investing sufficiently in “bad” firms so that the fund could have some real say in the behavior of the firm? Can such political uses of pension funds be reconciled with the dependence of people on revenues from the funds for their retirement? And can such redesigns of the power relations linked to pensions simultaneously enhance democratic capacity to shape capitalist investment and resolve the fiscal dilemmas of pensions provision in an aging society?

In this issue of *Politics & Society*, we publish two of the proposals for using pension funds in such progressive ways. Robin Blackburn’s proposal elaborates an institutional design constructed around what he calls a “share levy” on corporate profits which would channel resources to various kinds of collectively controlled pension funds. A share levy is a kind of tax on profits, but a tax paid through the issue of new shares rather than cash. It therefore does not directly affect the cash flow of a corporation but has the effect of transferring a small part of ownership of the firm to the pension fund in the form of shares. Over time, Blackburn argues, this would lead to a significant increase in the potential control such funds could exert over large corporations. Ewald Engelen develops a more modest proposal to create a new kind of public community development investment bank directed at filling gaps in credit markets, particularly for small and medium-sized firms. A tax on pension surpluses would provide the major source of funding for this new circuit of credit. With appropriate social criteria as part of the bank’s mission, this could provide a device for using pensions to generate significant new resources for socially constructive forms of capitalist investment.

Many other designs for institutions which could impose meaningful social constraints and social content on capitalist investment can be imagined—for example, stakeholder corporate boards which could replace shareholder boards of directors or publicly funded venture capital firms with social screening for investments. Our hope is that the two proposals explored in this issue of *Politics & Society* will contribute to a broader discussion of such possibilities.

NOTE

1. The Real Utopias Project began in the early 1990s as an effort to clarify theoretical and empirical issues in the design of institutions that would both embody the emancipatory ideals of the left and be attentive to the pragmatic problems of feasibility and sustainability. Publications from the project include Joshua Cohen and Joel Rogers, *Associations and Democracy* (London: Verso, 1995); John Roemer, *Equal Shares: Making Market Socialism Work* (London: Verso, 1996); Samuel Bowles and Herbt Gintis, *Recasting Egalitarianism: New Rules for Equity and Accountability in Markets, Communities and States* (London: Verso, 1999); Archon Fung and Erik Olin Wright, *Deepening Democracy: Innovations in Empowered Participatory Governance* (London: Verso, 2003); and Bruce Ackerman, Ann Alstott, and Philippe van Parijs, *Redesigning Distribution: Basic Income and Stakeholder Grants as Cornerstones of a More Egalitarian Capitalism* (London: Verso, 2005).