

PENSION FUNDS



Financial uncertainties following the collapse of Enron and WorldCom have now made their way onto the High Street. Last week, British retailers announced that the consumer boom had ground to a halt. Tempting as it may be to blame it all on a bunch of corporate crooks, hooked up with an equally dodgy troupe of corporate accountants, there is a bigger, more systemic crisis in global capitalism that we have to address.

Lots of people had been saying that share prices, particularly in the USA, were over-valued and in need of a 'downward correction'. Few were prepared to admit that the rules of the game had become so rigged and corrupt that economics itself was running on hype.

It would be nice to think that those who had been scamming the system into crisis would now have to pay the price. But they won't. Britain will still not make it illegal for a firm to be auditing the accounts and receiving lucrative consultancy contracts from the same company. Nor is there any proposal to outlaw share-option packages for senior executives.

Political leaders still run with the corporate song line that these are essential incentives to get business leaders to make business work. In truth all they have done is create a culture that jacks up share prices and dividends well beyond the productive wealth of the company itself. Moreover, it has created an addiction to dividend payments that more closely resembles a junkie's need for a fix than a credible investment policy. And like most drug addicts, the habit has been paid for by the theft of other people's assets.

Over 10 million British workers involved in company pension schemes have been told that £100 billion has been lost in their value since the start of 2002. Over the last 18 months pension funds have lost twice that amount - £200 billion – entirely because of the collapse in stock market prices and the fact that over half of all UK pension funds have been locked into this roller coaster.

Workers themselves have little say in the way in which their pension contributions are invested. We have no democratic rights to collective control over the use of our own deferred wages. Market rules demand that this is handled by fund managers, with a 'fiduciary duty' to pursue the maximum rate of return on the monies they handle.

Searching for the highest rate of return simply chases exploitation around the planet. We sacrifice long term employment (and environmental) stability in the voracious desire to cut corners and find people who will work for less. It leads us into tragedy and absurdity.

There is now structural over-capacity in every sector of the global economy – an ability to produce more goods than we are able to consume. Yet the gaps between the richest and the poorest are wider than they have ever been. The shortfall is not in production but in economic justice and accountability. The

world has wasted a huge opportunity. We could have used technology gain to restructure markets in favour of more sustainable production methods, more localised and accountable markets, greater job security and extended common ownership. Instead, our own pension funds have been used to drive wealth into the hands of the rich and ownership into the hands of the corporations. And even when it goes pear-shaped, it is the poor rather than the rich who pay.

None of Enron's chief executives will be poor as a result of the company's collapse. None of the major banks will be thrown into crisis or closure. Why? Because the risks were covered by pension funds rather than banks. Lots of ordinary workers will lose pension rights, but the system rolls on. President Bush orders a tightening of the rules. Downing Street urges business to be more honest. But none of the fundamentals are being challenged.

There are several factors that underpin the case for radical change. Philosophically, there is no convincing case to be made in putting pension savings into equities per se. Worker's savings are set aside against the hope of long-term security. Yet many of today's equity markets are driven by the demand for short-term payback and market valuations. You can't ask someone what a company will be worth in 20 years time when their main concerns are about its market standing over the next 20 months. People who want to gamble should be allowed to gamble. But decisions about the best use of our pension funds should be managed differently.

There is a more compelling case for rules that favour the use of pension funds to deliver the infrastructure of services we all have an interest in – both in employment and beyond it. For reasons that are perverse and wayward, the government has set its face against public borrowing for investment. Yet all the huge gains in society have come in this way. At one time local authorities led the way, issuing municipal bonds to pay for infrastructure projects.

These were the days when local authorities acquired ownership of their own gas, water and electricity companies, in the interests of providing secure access to services for their citizens. The same mechanisms were used to fund municipal bus networks and to build council housing. Central government got in on the act to underpin this borrowing via the public works loans board. Yet today, public borrowing is derided as a bodily sin that would make you go blind.

The Chancellor has painted himself into an absurd corner behind Maastricht borrowing rules, designed not to improve public services but to force their transfer into private hands. Rather than allow local authorities to issue bonds to build and improve council housing stock, the government forces them into large-scale stock transfers.

Over £1.5 bn is being offered to local authorities to write off existing debts...if only they will sell their tenants to someone else. We need a Labour government that will just write off the debts and let local authorities get on with the job. We need a Labour government to enter into new 'bond' partnerships with labour movement pension funds to pay for the London Underground, the delivery of a new national rail infrastructure, the building on new schools and NHS hospitals.

Pension funds that had gone into substantive public sector programmes would not have gone up in smoke in today's stock market collapse. The next thing workers will be told is that early retirement is unaffordable, that the retirement age will have to be revised to 70 and that, by law, we will all have to

put more into pension schemes.

There may be some biological truth in the fact that the longer we live, the more we need to pay in social insurance contributions during our working lives. But none of this offers any protection from the fraudulent markets that play with our pensions to begin with. The struggle for democratic control over our own pension funds is going to be as crucial a challenge to the labour movement as the struggle for a decent pension itself.

It isn't that workers have just stopped saving. In a low wage economy, some are just too poor to save. It is companies and governments that have led the real savings strike in Britain. Pension fund 'holidays' for employers broke the contributions link with any duty to their workers. The freedom to raid pension funds re-defined them as just another pocket to pick from. Arbitrary rights to end final salary pension schemes pull the plug on employer liabilities. And current NI rules simply reward those who replace labour with machines, making huge savings in the social insurance contributions they then pay.

To add insult to injury, Britain (along with Chile) now ranks bottom of the league of industrial nations in the level of state underpinning of retirement incomes. The real challenge we face is not about forcing workers to save more, but getting government and industry back into a pensions partnership they have been reneging on. Only then are we likely to see an interest in turning the use of these funds back from the speculative and into the productive infrastructures we are all stakeholders in.

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