Opinion

Political players determined to capture state-employee benefits

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Pity about pensioners: Lack of stewardship targeting long-term value creation for all stakeholders has produced too many losers. Picture: DUDU ZITHA/ SUNDAY TIMES

The story of pensions is the story of democratic capitalism: of its promises and of its disappointments. It is the story of the great power now wielded by an unaccountable fund-management industry.

Like all institutional shareholders, the Raith Foundation finds itself on the margins of this powerful industry. The absence of appropriate stewardship targeting long-term value-creation for all stakeholders has produced too many losers and too few winners. Our deep concerns about the management of the country's wealthiest pension fund, the Government Employees Pension Fund, by the Public Investment Corporation (PIC) must be seen in this context.

The global and local pension story of the past 30 years is a chilling account of how fortunes have been made in the financial sector at the expense of tens of millions of vulnerable workers. It is the story of cynical claims of responsible investment by layers of rent-seeking financial advisers who have achieved little more than exacerbate the growing trend of inequality that has become democratic capitalism's biggest threat.

The modern pension is an invention of the late 19th century, launched in a bid to mute growing social tension. In 1889, Bismarck established the old-age pension programme in Prussia; the UK followed about 20 years later.

By the early 20th century, state and employer-based pensions had spread across most of western Europe and the US.

The first known private pension plan was launched by American Express in 1875. It reflected the changing economic landscape of the western world. By the late 19th century, large limited liability companies superseded family-run enterprises and farming as the major form of employment. Pensions were deemed an important part of the new corporate structure.

The sociopolitical effect of two world wars in the 20th century reinforced the commitment to developing a socially cohesive form of democratic capitalism. The commitment was strengthened by a competing communist ideology.

But as Thomas Piketty describes in Capital in the 21st Century, this bright bubble of social cohesion endured for a reasonably short period, lasting from about 1910 to the early 1980s. This looks to have been democratic capitalism's heyday.

Pensions played a critically important role in that heyday. They represented an assumed understanding between labour and capital as well as citizens and their government. The understanding related to a social compact and a sense of responsibility between employer and employee and between the state and its citizens.

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But the model was not flexible enough to cope with the dramatic changes to the economic and political landscape that began to unfold in the 1960s. Margaret Thatcher and Ronald Reagan should not take all the responsibility for the return to a less caring society, but they did create huge opportunity for the dismantling of the social aspects underpinning the growth of democratic capitalism.

In this, they were helped by the collapse of the Soviet Union and the consequent belief that liberal democracy represented the end of humanity's sociopolitical evolution.

The evolutionary stamp of approval granted to liberal democracy opened the way for a corporate governance model based on shareholder primacy.

The short-term interests of shareholders were put ahead of all others. This was deemed to be the most efficient way to run an economic system dominated by large corporations run by managers rather than owners.

What happened to employer pensions after the '80s provides a chilling insight into Piketty's thesis about the rapid growth in inequality in the past 30 years. The dismantling of the decades-old pension system proved to be a critical cornerstone in the construction of an enormously rich and powerful fund management industry. It is an industry with no sense of social responsibility.

In the interests of shareholders, employment terms were made more precarious and employees were deprived of their full pension entitlements as defined contribution pensions replaced the far more secure defined benefit pensions. It turned out to be one of history's greatest and most venal transfers of wealth.

Workers were sold a story of empowerment; they now had control of their post-retirement wealth. As the owners of shares they would be able to influence corporate executives. The reality was chillingly different.

Defined contribution pension systems place the burden of post-retirement survival on the lone employee's shoulder. The financial advisory industry thrived as employees unskilled in the Byzantine workings of the investment world turned to them. This system also ensured individuals, even groups of individuals, would be unable to exert any influence over fund managers or the companies in which they invested.

It was a triple blow to workers: they were left on their own to deal with market volatility, forced to pay expensive financial advisers and exposed to increased employment uncertainty as rapacious fund managers constantly put pressure on executives to boost profits and share prices by cutting costs. For fund managers and corporate executives, higher share prices meant bigger bonuses. For workers and pensioners, higher share prices rarely meant higher after-cost returns but frequently meant less job security.

Raith implemented its responsible investment programme years ago because of its fears about the future of democratic capitalism in the absence of socially responsible investors. This has involved a determined bid to promote the long-term success of the companies in which it is invested and over which it has stewardship. This stewardship is not easy.

The necessary monitoring, engaging and intervening (where appropriate) require commitment and resources.

We were encouraged by the early promise of the PIC, which focused on investing "for sustainable financial prosperity of our stakeholders". To this end, the PIC developed a rigorous monitoring and engagement strategy. That early promise has sadly been usurped by powerful political players whose determination to capture benefits due to state employees puts those benefits at risk and also threatens the very security of their employment. It seems politicians, elected to protect citizens' interests, are intent on ensuring the benefits of the pension system will accrue to the few at the cost of the many.

Within the private sector, we urge others not to be overwhelmed by the complexities involved and to take back some of the power assumed by the fund management industry. At stake is the long-term survival of democratic capitalism.

• Elster and Fraser are with the Raith Foundation.