

Using Pensions for Social Control of Capitalist Investment

Agenda for a conference in the *Real Utopias* project

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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 capital accumulation 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. – 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 accumulation 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 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 capital accumulation 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 capital 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 accumulation has been completely dismantled anywhere, at the beginning of the 21st 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 capital accumulation, 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 capital accumulation, 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 we would like to explore a range of possible institutional devices for imposing significant social direction on the pattern of capital accumulation. The general idea is this: There already exists 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 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 to 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 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 capital accumulation and resolve the fiscal dilemmas of pensions provision in an aging society?

This conference in the *Real Utopias Project* will examine the normative issues bound up with such proposals, the theoretical principles of alternative designs, the historical record of various attempts at developing such ideas in practice, and the prospects and problems of using such institutional devices on a broad scale. The opening paper in the conference by Robin Blackburn, “Pension Provision: The Crisis and Outline of an Alternative,” explores alternatives models of pension provision – both public and private -- and their prospects for adequately contending with the impending crisis of pension systems in the 21st century, and then proposes a specific kind of strategy for both dealing with this crisis and using pensions as an instrument for democratic control of accumulation. Other papers in the conference will engage these themes in a variety of different ways: commenting on this specific proposal; elaborating alternatives institutional designs; reviewing the historic record of the proactive use of pensions;

examining debates within the labor movement over “politicizing” pensions; examining the effects of the existing use of private pensions for “socially responsible investment”; and criticizing the whole project of using pension funds in politically directed ways.