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Pensions and politics

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On 13 May 2003 France was effectively shut down as workers across the (still expansive) public sector went on strike in defence of their pension arrangements. Their protagonist, the rightwing Prime Minister Jean-Pierre Raffarin, took out full-page advertisements arguing that France is facing a pensions time bomb:

> "In 1960 there were four workers to pay for the pension of every retired person. In 2000 there were only two; in 2020 a single worker will have to subsidise the needs of each pensioner.... Conceived more than fifty years ago, our retirement system no longer corresponds to the demographic reality" (quoted in BBC, 2003).

Yet this is dangerous territory for the Prime Minister to enter: attempts in 1995 at reforming the pensions system were abandoned in the face of similar opposition from public sector unions and France's relatively generous pension system remained intact, while the potentially reforming government was badly wounded.

While the strikes may appear to be a typically Gallic reaction, in that industrial action and social solidarity remain a pertinent feature of French life, pensions insecurity is becoming a commonplace across the affluent portion of the world. Whilst Western Europe and North America are richer than any country at any time in history, a combination of demographic changes and neoliberalised politics (even in France!) mean that nation-states are increasingly asking how people will be catered for in old age in an era of a larger 'dependent population' (the language is telling), more porous boundaries that inhibit the idea of the national economy, distrust of the state, and a (patchy but growing) visceral distrust of 'high' taxes. This question may turn out to be one of the defining questions of our age and the answer our different societies choose will outlive many of us. Yet, as in too many other areas, geographers have virtually ignored pensions (exceptionally, see Clark, 2000; 2001; 2002; Clark and Bennett, 2001; Clark et al, 2002; Sunley, 2000), or have conducted important work on the broader political economy of pension fund investment (Lincoln, 2000; Martin and Minns, 1995). The debate between Gordon Clark and Ewald Engelen is, consequently, a critical intervention in the discipline that deserves to stimulate broad thinking and analysis. As both authors recognise, there is as much that unites them as divides them. For example, both are sceptical about the rationality and capacity of financial markets and their analyses of the politics of the demographic pressures that European nation-states face are broadly similar. However, it is the areas of disagreement that are perhaps most noteworthy. Crudely—and I do mean crudely because both accounts repay careful attention—Engelen argues that privatised pensions that rely upon assets in the financial markets are structurally incapable of providing a savings vehicle over extended periods of time, whereas Clark's analysis rests upon a reading of the *politics* of state-sponsored intergenerational wealth transfer that social pensions imply and he argues that the shrinking workforce will increasingly be unwilling to pay for anything other than a penurious lifestyle for state retirees. Although Clark is by no means blind to the perils of the financial markets, he sees them as the only viable political solution (at least as a supplementary form of provision to the withered state).

It would be invidious for me to attempt to confer a stamp of approval on either account. Because I share much of Engelen's economic analysis and simultaneously accept the logic of Clark's political reasoning, it would also be dishonest. Economically, the evidence that the rich capitalist countries have become financialised is becoming almost overwhelming. Financialisation refers to a situation where the majority of corporate profits are generated through financial engineering rather than through 'materially productive' activities (Boyer, 2000). Greta Krippner, for example, has recently carried out a comprehensive empirical analysis of the US case and shown that, not only do financial corporations account for an increasingly large share of profits, but the dominant trajectory for nonfinancial corporations is to rely upon financial engineering. Furthermore, she demonstrates that

> "financialization is not merely an artefact of the stock market mania of the 1990s, but extends back some twenty to thirty years ... the 1990s conform to a pattern of growth in which accumulation *across* the economy is led by finance" (2002, page 34, original emphasis).

Furthermore, there is evidence that similar patterns are exhibited across the richer capitalist countries (see, for example, Dorre, 2001; Feng et al, 2001; Froud et al, 2000a; 2000b; Jurgens et al, 2000; Morin, 2000; Williams, 2000). This has important implications for stock-market-based pensions schemes, because the claims pension fund contributors have on the future may be unrealisable. As Arrighi argues,

> "financial expansions have tended to destabilize the existing order through processes that are as much social and political as they are economic. Economically, such expansions systematically divert purchasing power from demand-creating investment in commodities (including labour power) to hoarding and speculation, thereby exacerbating realization problems. Politically, they tend to be associated with the emergence of new configurations of power, which undermine the capacity of the incumbent hegemonic state to turn to its advantage the system-wide intensification of competition. And socially, the massive redistribution of rewards and the social dislocations entailed by financial expansions tend to provoke movements of resistance and rebellion among subordinate groups and strata, whose established ways of life are coming under attack.
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> The form that these tendencies take, and the way in which they relate to one another in space and time, have varied from financial expansion to financial expansion. But some combination of the three tendencies can be detected in each of the two so-far completed hegemonic transitions of historical capitalism—from Dutch to British and from British to US hegemony. In the past transitions (although not yet in the current one), they eventually resulted in a complete and seemingly irremediable breakdown in the system's organization, which was not overcome until the system was reconstituted under a new hegemony" (Arrighi, 2003, page 68).

Even if the somewhat apocalyptic implications of the 'Arrighian' analysis of the state of financial markets are overblown (and they may not be), stock-market-based pension schemes are unlikely to be a panacea because they—just as much as state pensions—rely upon an intergenerational wealth transfer: people who buy shares are, effectively, making a claim on the fruits of the labour of workers in the future (because shares entitle the bearer to a portion of future profits). Furthermore, the maturity structure of pension schemes means that there will be the greatest equity withdrawal at the moment of the most demographic stress (Engelen, 2003; Toporowski, 2000). Other than in the circumstances of the unlimited geographical expansion of capital or an end to financialisation that means that "capital must be allocated in such a way as to enhance productivity gains when the demographic transition has got into full swing" (Aglietta, 2000, page 157), it is hard to see how stock markets can resolve the dilemma of how to fund pension schemes.

However, I share Clark's assessment of the *political* viability of state pension schemes. It is not only in the English-speaking world that collectivist ideals—that can underwrite a strong social state—are being eroded (see, for example, Boreus, 1997; Cheru, 2001; Dezalay and Garth, 2002; Hamann, 2001; Peck and Tickell, 2002; Tickell and Peck, 2003; Wade, 1998). Furthermore, the individualisation of pensions can be an elegant long-term political solution—albeit one that may have short-term costs—to governments who have to fight to maintain their political legitimacy. The political risks of failure of a state pensions model are directly attributable to governing parties or, more rarely, the state; whilst the economic risks are likely to be borne by the currently working population. With private provision, however, if pensions fail to meet expectations there is a quiet violence—retirees will have a lower living standard than anticipated and, in the (extremely plausible) event that stock markets fall rather than rise the economic risk is felt by the recipient. In these circumstances, it is only if there is a fundamental failure of pensions *and* specific government failures that the crisis of legitimacy is likely to be felt.

My own conclusions are, thus, gloomier than those of either Clark or Engelen, in that my political reasoning is that the state will retreat even as my economic reasoning is that this will be a disaster. Yet these outcomes need not occur and we must beware of naturalising processes that we describe (or decry). Aglietta (2000), for example, suggests constructive ways of transforming the priorities of pension funds that are commensurate with the analyses of both Clark and Engelen. Ultimately, the future of pensions is about the political and economic decisions that our societies make, and the quality of the political economy of both protagonists here both informs us and should remind us of our wider social and political responsibilities.

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