Title of the paper: "The Individualistic Foundations of Pension Politics and the Illusion of Patient Capital: Evidence from Pension Investment Policy in the Netherlands"

Session: Policies for productivity and wages

Abstract: This paper takes issue with the popular idea that the involvement of labor unions within occupational pension funds would hinder short-term profit-maximizing strategies that instead characterizes private pension schemes in Anglo-Saxon countries. According to this view, joint governance by the 'social parts' is a sufficient condition for channeling retirement savings into long-term investment projects – thereby reducing instability and social inequality. Our aim is to contribute to demystify this myth. First, we critically analyze the methodological and theoretical foundations of the orthodox studies of pensions politics, whose individualism and 'institutionally situated rational choice approach' reduces the analysis of social security institutions to their ability to solve market failures, as if institutional evolution was just a matter of Pareto efficiency. We then look at these institutions under the assumptions that: a) deregulated financial markets are not neutral and engender a network of power relationships – sometimes only indirect and impersonal – which goes beyond direct market participants; and b) high profitability generated by speculative investments leads to a new political compromise between firms and organized labor, whereby the compression of pension contributions as a means of labor cost retrenchment is compensated by the increase in financial wealth by pension funds. At the same time, the retirees continue to enjoy high welfare benefits, which compensate for the erosion of public pensions. In other words, the buying and selling of easily liquidated assets by occupational pension funds represents an internally coherent strategy backed by workers' representatives, as it guarantees high net-salary levels and generous pensions, without undermining the competitiveness of the firm – at least in the short run. The problem, however, is that this strategy reduces firms' dynamism in the long run. Moreover, it dramatically increases the intrinsic risk of a pension system that, in fact, depends on the state of health of global finance. Finally, we test our hypothesis by examining the investment strategies in the Netherlands, where occupational pension funds have been historically embedded within the structure of neo-corporative interest mediation between trade unions, employers and the State.