# Missing the Point; Financial Crises Are not the Issue, at least for Pensions.

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*Fear, Shocks, Threats, Enemies; the Importance of Seeing Pensions in a Broader Context than just 'Pensions' or 'Financial crises'.*

First of all, what is the prevailing paradigm of finance and welfare? We are told that we are living in a world of threats, crises and enemies, one of the latest being the 'threat' of old age. The World Bank and other 'reformers' have paraded this in financial crisis terms. Old people are presented as an enemy, their increasing demographic presence and financial 'cost' promising to swamp us all, or so the crisis argument goes; the 'doomsday scenario', the 'age shock'. The issue is often bound up with the manipulation of language (1). This burgeoning 'threat' coincides with the need to arm ourselves against other, external enemies and threats. This is not cheap either. UK Armed Forces Minister,

> *The threat changes … We have to stay ahead of the enemy as much as we can and that's not cheap.*

Since we are all now apparently at risk, not just old people, we should all pay for it, the old especially because of their growing burden on society. The old are a burden, 'a cost'. Privatisation of their welfare, according to the welfare paradigm presented by the World Bank, amongst others, was said to be the solution. But it has singularly failed. And not just because of a financial crisis. The issue is a structural one about the importance of financial institutions and the delivery of welfare on a sustainable, mutual basis, not a temporary crisis.

In other words I believe that the problem with the private solution to the burden of old age is fundamentally flawed. The explanation for this is not financial crisis and its devastating effect on pensions. It is a more substantial matter than just speculation, sub-prime mortgages, bail-outs, greed and stock market collapse.

What is it *really* all about?

Consider some of the usual headlines.

1. Dow Jones Index 46% decline, October 2007 to November 2008. This affects pension investment returns. But real rates of return were already declining.

2. Coverage of workers by final salary schemes (defined benefit, where the pension benefit is ‘defined’ in advance) down from 21 % to 9% between 1992 and 2004. That is, *before* the crisis, indicating that there was something already going on.

3. US state and local defined benefit schemes prior to crisis had full funding. Now the funding has dropped to 80% and falling fast. But the switch to defined contribution schemes – shifting the burden of responsibility on to the individual - had occurred years before.

4. It is said that the closure of the defined benefit schemes reflecting falling asset values as indicated by the Dow Jones and other indices will require an employer boost of $90 billion in 2009. Defined contribution schemes require nothing because they were and are dependent on the market. Four million workers in the UK rely on defined contribution pension schemes (the pension depends on what you pay in and what the stock market investments pay you back). With the collapse of jobs and asset values the pensions which were seen as heralding greater choice by Margaret Thatcher and countless US administrations will crumble. In fact they already have.

5. Only one in five UK defined benefit pension schemes (the pension is specified in advance) are still open to new members while 16% have been closed even to existing members. It has been estimated that seven million people cannot save enough. Forty per cent of pension systems are in default and, overall, pension systems are £518 billion in debt.

6. Pensioner poverty is set to increase especially amongst women. In the UK this already (pre-‘crisis’ again) affects 1.6 million women. In South America, which was the darling of the World Bank for pension ‘reform’, ie, privatisation, 50% of all women will receive no pension at all, despite the reforms dating back to 1983. The financial crisis has led the President of Argentina to propose the nationalisation of the $30 billion private pension funds ‘to protect pensioners’, and in Chile the President has announced, prior to what we now regard as ‘the crisis’,

> *The system has low coverage, low density of contributions; it leaves almost ninety-five per cent of the independent workers outside the system, it shows very little competition and high commission charges, it does not take into account the complexities of the modern workplace …. And discriminates against women … amongst other shortcomings.* (2)

The concentration on financial crisis confuses a number of facts and consequences. The private systems were already in trouble prior to the crisis. The push for privatisation of pensions goes back decades and the negative consequences are nothing new. The ‘financial crisis’ may have finished them off but the reasons for the disaster are more fundamental and should not be seen as a momentary or even longer-term crisis in an otherwise sound system of financial and political rectitude in the provision of privatised welfare.

Of course the collapse of markets wipes out pensions in payment and prior contributions. If people lose their jobs they cannot contribute to private pension schemes, whether defined benefit or defined contribution. Stock market collapse wipes out asset values – the value of savings. That's obvious. But pensions help to prop up broader political and economic structures. We cannot separate out pensions from the broader economy and the broader paranoia of fear and enemies.

**Pensions are not just about pensions. If they are unsound it is because the system that allegedly supports them is unsound. They do not exist in some hermetically sealed welfare box, to be judged on their own terms.**

*The Story of Argentina, South America, and the Weapons, Debt, Pensions Complex.*

It began with violence and depended on it. US-inspired pension reforms led to a greater role for US banks and insurance companies in a devastating concoction of weapons, debt, financial institutions, and murder. Financial institutions were involved in the whole sorry story, as they were in other problematic political scenarios such as the Nazi government in Germany and the role of leading insurance company, Allianz (3) which helped in the recycling of Jewish assets, lending money for Aushwitz, and providing a Minister of the Economy. The point is, the politics of finance and welfare economics.

In 1973 the US CIA orchestrated a coup in Chile which brought Augusto Pinochet to power, killed Salvador Allende, the democratically-elected President, launched Operation Condor to pursue and murder dissidents fleeing from one South American country to another – Argentina, Chile, Brazil, Uruguay, Bolivia and Paraguay. Arms imports soared. Debt to pay for the weapons mounted astronomically. The final cost of the US, UK, French, Austrian, German, Italian, and Israeli helicopters, jet-fighters, anti-tank guns, frigates, surface-to-air missiles, armoured cars and small arms has fallen on all pensioners, tens of thousands of whom in Argentina and Chile had already lost their children without trace.

In Argentina the plundering of state pensions and welfare in earnest began under the Presidency of Isabel Peron in 1974, although some plundering dates back to earlier years. Her Minister of Social Security, Jose Lopez Rega, funded the Triple A death squad (Alianza Anti-Comunista Argentina) from the social security budget. These assassins, ie. social welfare employees, snatched people off the street. Under the subsequent military dictatorship of 1976 debt and weapons increased exponentially. Pensions were cut in 1984 under the democratic government of Alfonsin (who died recently with many flattering obituaries) and then in 1994 a system of private pensions was set up alongside the fast disappearing state system (under President Menem, escaping subsequent indictment for corruption by reinventing his political career). There were subsequent court cases by state pensioners; a sorry tale all round.

There is more.

Privatisation was to combat the debt. Two thirds of the historic debt was used to buy weapons, the major part of it illegal (imports without registration). Many of the western banks which are now laying off their own workers supplied the massive credits, recycled petro-dollars, to an unquestioning series of dictatorships which were killing communists, trade unionists, dissidents, school children, university students, Catholic priests and Jewish citizens. Britain under Labour, and weapons suppliers with their high level of trade union members and *their* defined-benefit pensions, fuelled the system. The point is that it was not just the financial institutions which created the problem, and therefore it is not just reforming finance which is the answer to the problem, or regulating it which is the issue.

Latin American countries were then introduced by the US-controlled World Bank to private pensions which allegedly offered a solution to the enormous debt incurred by weapons purchases. The World Bank theory of old age protection and economic growth took off in many countries with World Bank loans, and also with financial and advisory support from USAID (US Agency for International Development) with its alleged CIA connections. In Europe USAID with its privatisation policies backed reforms in fifteen countries in the twenty years to 2005. The World Bank helped 52 countries, some say more, in their privatisation policies. In Argentina the trade unions from the start called it a swindle, but after the US inspired oppression and IMF policies of austerity, they were on the defensive.

The World Bank priority was the expansion of financial markets. It failed alongside its pension policies. The theory was that privatisation would increase savings; savings would increase investment; investment would increase production and jobs; production and jobs would help to increase pensions. Not one part of this miraculous cycle of economic and welfare provision has been proven to work.

I have argued above that the introduction of private, individual pension accounts has been used in South America to salvage social welfare which was being used to pay for defence against other enemies. I believe more generally that *social security has become a part of national security*. By criticising private pensions and credit crunches we are therefore missing the point. The point is the changing and frightening redefinition of national security, threats and enemies. This alongside the promotion of private provision aimed at the greater reliance on financial markets with which governments and trade unions concur for their own reasons.

<u>In other words, the structure of pension provision and its financing serves other national, social and commercial objectives – NOT pension welfare.</u>

If we examine closely what happened in Latin America, with its debt, weapons and private pension solutions to pay for national security, why, in Argentina, Bolivia, Colombia, Chile, Mexico and Peru, were the military exempt from private provision. If the state system was such a disaster, and the private sector offered such salvation, why were the military allowed to opt out of the miraculous cure? Perhaps it was because the military knew a good thing when they saw one, and that privatisation was indeed a swindle.

After Europe and Latin America, then former Soviet countries have been introduced to this welfare model. Now, what have we in the Middle East? What could wars in the Middle East be about? What does economic dominance mean when it comes to welfare? Of course we never consider this in our analyses of war. My point is that we should - ie. we must consider the role of pensions in paying for national security and the role of pensions in providing for the expansion of stock markets and, to be melodramatic, their role in warfare. Let me explain.

*The Middle East*

Six stock markets dominate the financial infrastructure in the Middle East, from the largest in Israel and Saudi Arabia to the smallest in West Bank and Gaza (indeed, the Occupied Territories have a stock market) with Jordan, Egypt and Lebanon in between. Israel began to dismantle its trade union-run (Histadrut) national pension fund four years'ago with allegations of trade union corruption, while the real reason waas the use of the pension system to attract and benefit elderly immigrants in the build-up of the Jewish state. The privatisation means more capital for the Israeli defence industry which historically supplied weapons to South American dicatatorships which indiscriminately killed Jews. Israeli pensions helped pay for the weapons industry. For instance, it has been commented that the economic crisis in Israel in 2002, following the Intifada (uprising) and the cuts in cheap Palestinian labour, was not as bad as it could have been because the government increased military spending by 10.7%, partly paid for by cuts in social security (4). This is another reason for mounting a different and international case against privatisation and its various uses which do not serve pensioners.

The proposal for an extended pension scheme in the West Bank and Gaza Strip (WBGS) presents no surprises. The official report states,

> *A new type of pension fund geared to WBGS society is required which would be more comprehensive in nature and would be influential in WBGS financial markets, thus encouraging economic growth.* (5)

The international privatisation myth continues.

The international case for countering some of these developments and the legacy elsewhere of private failure is difficult of course. The five permanent members of the UN Security Council represent 87% of world weapons sales, and two of them represent 80% of world pension fund assets and two of the three largest world stock markets.

Perhaps the devastation of the financial markets could be the catalyst for change and a rebirth of state provision in welfare.

*The Sad Conclusion about the World of Pensions.*

Pensions are not about pensions. Innumerable arguments are used to confuse the issue which is really quite simple. State pensions are classed as public expenditure, regardless of how much individuals have contributed to them during their pre-retirement lives.

If the objective of pension policy following the disaster of recent years and the financial crunch is still to provide security in retirement and to contribute to welfare more generally, policies must include pressure to increase state pensions, abolish private pensions and if people do not 'need' the increase in state pensions, they will save them, just what the privatisers say they are trying to achieve in order to benefit the economy and promote economic growth. With a progressive state pension policy we can have it both ways. Pensioners are not a cost. They save *and* spend.

*Identification of Targets.*

Pensions should be about pensions, not part of national security policy or commercial gain, to be marginalised to pay for other 'threats'. The private schemes should not invest in weapons. A comprehensive policy should be the extension of state provision, nationalisation of private pension assets, and an extensive and intrusive policy about weapons production. If we do not do this we will continue to miss the real targets and the fundamentals of the interlocking structures.

I have to conclude therefore from the UK, European, Latin American and Middle East examples that pensions are inextricably bound up with other priorities. There are financial, defence and national security reasons which help to explain the current financial crisis affecting pensions.

Private pensions are a mirror of what we should still call capitalism. The challenge is a comprehensive one. It is not just about private pensions.

I suggest we argue for a network of provident funds – state funds that run the investment system. The World Bank has famously commented;

> *Centralised provident funds ….. If these funds were to invest in corporate equities, public officials could gain control of corporate affairs,* a back door to nationalisation. (*Averting the Old Age Crisis, 1994, p. 214, my emphasis)*

This indeed underlines the politics of pensions; and the politics of money.

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