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Governing pension fund capitalism in times of uncertainty

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For over two decades, western democracies have sought to transfer public liabilities for retirement income into private hands in order to contain welfare state costs and boost financial markets. This transformation is commonly viewed in terms of privatization and increased personal responsibility for old age security. Following the recent financial crisis, persistent economic instability is revealing the limitations of pension fund capitalism. Expected returns on private savings have collapsed and funded defined benefit (DB) schemes are falling into deficit, prompting demands for renewed public intervention. However, the current crisis has also increased public debt and limited welfare state capacity: combined with demographic challenges, this has forced the containment of public systems as well. The crisis of 2008 and its aftermath have demonstrated that commonly held distinctions between state and private pension provision have broken down. In some countries, governments extended help to safeguard private schemes. In others, governments have raided pension funds to shore up public account balances. As distinctions between public and private dissolve, responsibility diffuses. As with Europe's financial crisis in general, this is a problem of governance as much as a problem of finance.

As the state has transformed from pension provider to pension guarantor, implications arise for pension governance. Can public–private partnerships in pension provision create schemes that are economically efficient and socially fair? In what ways, using what instruments – and with what degree of success – have governments tried to make private schemes publicly accountable and promoted pension security? How far have pension providers been converted to public purposes? Most importantly, what consequences has

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the crisis had for governance structures and policies? These are the questions addressed by the contributors in this special issue of *Global Social Policy*.

The crisis of pension governance in Europe is important for several reasons. First, the developed welfare states of Western Europe have long set the pattern for pension reform in other regions of the world. The turmoil in Europe thus has far-reaching implications. Second, the less developed welfare states of Central and Eastern Europe (CEE) are typical of others found throughout the world, in Latin America and elsewhere. The effects of the global financial crisis on these countries, that have been among the most enthusiastic adopters of pension privatization and other neoliberal reforms, also hold lessons for other world regions. Third, private pensions were supposed to promote portability, to enable workers to move in accordance with opportunity. However, even the European Union (EU) has only limited capacity to achieve this, to improve pension governance and social policy regulation in an ever more economically interdependent Europe. The articles in this issue focus on the effects of the crisis on European countries, West and East, as well as the EU, but they do so from a global perspective, analysing the implications of trends that may be most acute in Europe, but are visible throughout the world.

In particular, the article by Casey, in a comprehensive assessment, discusses the consequences of the financial crisis on pensions, exploring the financial problems of pension systems and stressing their present instability. Ebbinghaus and Whiteside draw attention to the vanishing boundaries between private and public responsibility for pensions in Western Europe and ask whether recent trends can be reconciled with established analytical models. Drahokoupil and Domonkos explore the diverse reactions of CEE countries to the crisis, demonstrating how political choices explain differences in post-crisis policy. Marier discusses the changing role of social partners in governing public and private (occupational) pensions. Guardiancich and Natali analyse the EU's efforts to promote pension sustainability and portability, pointing to tensions between political and financial issues in a technocratic reform agenda.

Together, combining perspectives from sociology, political science, social policy and political economy, these articles show how national governments and international organizations are responding to acute challenges to European welfare states, leading to new patterns of pension provision. The contributions are largely empirical, attempting to make sense of the global financial crisis and its impact on systemic retrenchment in pensions. However, this special issue also aims to make a theoretical contribution by showing that established tools of analysing pension politics may need to be rethought as boundaries between public and private provision dissolve.

As Bernard Casey shows, the global financial crisis 'provided a wake-up call for policymakers . . . to confront with increased urgency the issue of population ageing and how [it] might be paid for'. Defined benefit and defined contribution pension systems came under long-term downward pressure across Europe, but they are also used as an 'automatic stabilizer' to enhance growth in the short term. Some reforms were delayed while retirement age increases were accelerated in many countries. Moreover, the crisis 'revealed the shortcomings of approaches that had sought to place increased emphasis on non-state sources of retirement income'. While state pensions came under pressure, the crisis of non-state pensions was even greater, reflecting their greater reliance on financial – both bond and equity – markets. Public opinion polls show a precipitous drop in confidence in markets as a source of retirement security, a factor that lies behind some decisions to step back from pension privatization.

Bernhard Ebbinghaus and Noel Whiteside explore how pension governance has changed with the shift to privatization and the blurring of the public–private boundary in old age income responsibility. Intergenerational contracts that bound together the pay-as-you-go (PAYG) public pensions are disappearing, while new social conventions to sustain confidence in the new public–private mix have yet to emerge. This complicates reform decisions and crisis response. Government responses to the crisis have shown how private systems rely on state support, that these systems are less stable than previously thought, and governments constantly intervene to safeguard pensions. The authors conclude that 'we face not only the challenge of squaring the circle of financial sustainability and social adequacy, but also political viability if promised outcomes are not achieved'.

Jan Drahokoupil and Stefan Domonkos show that the crisis proved to be a turning point for newly established private pension systems in CEE. While many countries in the region had moved towards a World Bank model of pension privatization in the late 1990s and early 2000s, the global financial crisis sparked a return to diversity. Some CEE countries reduced or abolished their private pension funds, while others continued liberalization. These differences emerged from unresolved problems of financing the transition costs towards funded pensions and political factors that shaped the interpretation of the reality created through past choices and the crisis. 'The funding gap in covering the transition costs became a key issue', sparking divergent responses, yet, 'pension privatization is still on the agenda' in CEE countries. The authors expect that what will emerge from the crisis is a continued commitment to smaller private pension pillars.

Patrik Marier's article shows that, despite challenges, the social partners continue to play an important role in the governance of private pension systems in four Western European countries. As cost containment became an overriding objective for pensions systems, trade unions have often fought to maintain state pension guarantees, while at the same time, in some countries, founding their own private pension schemes. In some cases, these private pensions offset reductions in replacement rates from public pension schemes. Marier shows that the particular type of governance arrangement and financing mechanism shapes the emerging public–private mix. 'Pension issues typically involve social partners and the state with solutions considering the pension system in its entirety', as opposed to focusing on one facet alone, such as private pensions.

Igor Guardiancich and David Natali highlight the growing European dimension of pension debates. In particular, they focus on issues of coordination of public and private pensions and the problem of transportability of supplementary pension rights that the European Union has sought to address through its Institutions for Occupational Retirement Provision (IORP) Directive. While 'problems with the acquisition, transfer and fruition of supplementary pension rights still undermine labour mobility across the member states', Guardiancich and Natali argue that the IORP Directive creates a possibility of substantial cross-border pension funds in the future. Pension governance has often been considered solely at the domestic level, but the realities of European economic integration are creating a need for Europe-wide governance of pension markets. While this has been complicated, governments and businesses increasingly require means to address cross-border issues and these could ultimately have a major impact on national pension systems. However, their analysis 'shows that integration in this social policy area is crucially limited by institutional differences between the member states'.

The Forum contributions to this special issue focus on selected European countries most severely affected by the crisis, such as Greece and Hungary, and unique social perspectives on recent trends. Greece is at the top of the agenda in the European sovereign debt crisis. Platon Tinios reminds us that Greece's pension system was in crisis for some time. Having avoided 'neoliberal' reform or privatization, the pension system ultimately did not avoid a significant and chaotic rollback. András Simonovits catalogues the unique reform trajectory in Hungary, where privatization under a left government was followed by a confiscation of private pension fund assets by a right government. Addressing Sweden, Karl-Gustaf Scherman demonstrates the vulnerability of technical solutions designed to sustain a balance between pension assets and liabilities when faced by political pressures consequent on severe financial shock. Turning to general social issues, Pierre Habbard discusses how workers' capital has been managed and whether labour can influence corporate responsibility via shareholder activism. Patricia Frericks argues that the new differences in pension system design reflect the nature of public–private pension structures, arguing that numerous new issues are arising from 'savings traps' and inadequate coverage of social groups such as women and migrants.

Together, these articles provide a unique snapshot of the transformation of European pension systems at a critical juncture. The global financial crisis has created widespread uncertainty throughout public and private pension systems and upset the fragile consensus that had governed pension design to date. The crisis dealt a hard blow to confidence in pension privatization, which has been pursued by a variety of means, but it also made clear that the crisis of public PAYG pension systems and occupational DB schemes remain under threat. Problems of pension governance, meanwhile, have become more severe as the agencies and group compacts that have governed pensions in the past have unravelled. As European pension systems have often set the standard for pension system goals and methods worldwide, the effects of the present crisis in Europe require careful consideration. We believe that this set of articles helps to set an agenda for future research into the uncertain place of pensions in the world's oldest and largest welfare states and what this may mean for the future.

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Biographical notes

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