Funded Pensions, Responsibility of Ownership and Economic Citizenship

by

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1. The right to an Equal Share in Social Product.

The right to a fundamental entitlement out of the wealth produced in a society has been justified in terms of the fact that quite a significant part of this social product cannot be merely reduced to the contributions individuals make on their own, but also has to be attributed to the collective effort of the community as whole, to the diversity of talents, both qualitatively (as in an orchestra) and quantitatively (as in the Ricardian comparative advantage)[1]. Even if one takes for granted the right to the full product of one's labour, one can still argue that what individuals contribute stands atop common legacy of social co-operation and technological inheritance. The talent and imagination of members now living in a society, the work they perform individually, and the risks they are prepared to take individually, only to partly account for the wealth that ensues[2]. The wealth creating transformations performed by today's individuals inevitably build upon the knowledge and the social physical infrastructure accumulated over generations and on the efforts of others now living. Moreover, it has been estimated that more than half of today's accumulated wealth is directly inherited, that is goes to recipients because they were lucky enough to have been born into the right family rather than because of their own hard work or risk[3]. And even if one would be able to redress to some extent this unequal inheritance by means of such instruments as inheritance taxes or the public ownership of patents, individual wealth creation still would depend on an perpetual social co-operation. This co-operation not only includes the respect of the rights of property[4], but also the willingness to submit to hierarchical co-ordination within a firm, and the honouring of the non-contractual elements of contracts[5]. Some members of a society benefit more than others from this type of co-operation without necessarily contributing proportionally more to this co-operative effort. They therefore have the obligation to share some of the wealth they are able to produce with those whose collaboration they require to sustain the system.

The unconditional right to a basic equal share in the social product fundamentally can take on two main forms: a basic income consisting of cash transfers paid on a regular basis to each

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[1] See for example Philippe van Parijs in his summary of the Rawlsian point of view in his "Competing Justifications of Basic Income" in Philippe Van Parijs ed. *Arguing for Basic Income* London: Verso, 1992, pp3-46.
[2] Gar Alperovitz "Distributing our technological Inheritance" in *Technology Review* October 1994, pp.31-36.
[3] Laurence J. Kotlikoff *Generational Accounting* New York, NY: Free Press, 1993.
[4] Bruce Ackerman & Anne Alstott *The Stakeholder Society* New Haven, CT: Yale University Press, 1999, p.14.
[5] Emile Durkheim *De la Division du Travail Social* Paris: Presses Universitaire de France, 1978.

individual member of the community, and basic capital consisting of a one-off endowment provided to all members at the beginning of adult life. Proponents of the basic capital variant argue that their scheme is less paternalistic and enhances individual responsibility. Advocates of a basic income counter these concerns by arguing that too much individual responsibility might encourage recipients to "squander all of it and end up destitute"[6]. In addition, they question the assumption according to which people preserve the same identity throughout their entire life course. Therefore, they argue, some degree of paternalism is justifiable in order to protect the "elderly selves" from the youthful short-termism of the "younger selves". This discontinuous view of the self has been energetically rejected by the advocates of a basic capital endowment: thus it has been argued that one of the main differences between children and grown ups precisely is that adults are well aware of the consequences earlier choices they have to make. On this basis they conclude that each adult must be made responsible for the decisions he makes at earlier station in life – for the better or for the worse: "to treat him otherwise is to treat him as an eternal child".[7]
Nevertheless, even the advocates of a basic endowment tend to accept the necessity to protect the elderly from the mistakes they may have made in their youth, in that their proposal often includes the provision of a citizen's pension, which in effect boils down to a basic income for the elderly. But at least until they reach the retirement age, people are expected to "plan ahead and act sensibly"[8].

In this paper we will be arguing that it is problematic to see the provision of a basic income as the embodiment of economic citizenship. In this respect we accept the criticism made by the advocates of a basic capital endowment that basic income schemes run the risk of being paternalistic and relegate beneficiaries into the role of passive recipients. However, we will try to argue that endowing every citizen with a lump sum paid out in cash upon reaching adolescence is not an appropriate tool to allow the bulk of citizens to obtain control over their economic life. Drawing upon arguments that have been formulated in the context of discussions about the institutional architecture of funded pension schemes, we will outline the basic traits of an alternative system that seeks to avoid the paternalism of passive basic income schemes, but at the same time refrains from putting too much risk and responsibility in the hands of individual citizens who, in an economy in which entrepreneurial is primarily

[6] Philippe Van Parijs *Real Freedom for All. What (if anything) Can Justify Capitalism* Oxford: Clarendon, 1995, p.45.
[7] Ibid, p.213.

financed by capital markets, as small entrepreneurs even if they are endowed with a basic cash grant do not stand much of a chance to successfully compete with globally operating competitors. We will argue that if stakeholding is not to be synonymous with equal opportunity, more is required than to grant each adult citizen a starting capital.

2. Basic Income or Basic Capital?

Basic income transfers may be an effective tool for combating poverty, to guarantee a fairer financial compensation for people who have worked in their families and communities without receiving market wages, or in more general to make people less dependent of the cash nexus of wage labour, but they are unlikely to foster economic citizenship in the sense of the institutionalising active participation of citizens in determining their economic fate.

In principle, the effects of instituting a basic income are not that different from those of labour legislation, unemployment insurance, or labour supply cartels through trade union organisation: they all tend to strengthen the bargaining power of wage earners as individuals or as a group. The introduction of a basic income grant thus indeed could allow people to gain more control over their economic life and as such could be considered as a way of strengthening economic citizenship rights. Compared to these other arrangements, a basic income is arguably more inclusive in that it better takes into account the interests of non-organised workers or people who are not in a standard employment relation. However, like most programmes for income redistribution, basic income schemes tend to relegate beneficiaries to the role of passive receivers. It has been argued that by acting as a cushion and as a risk-bearer for all, basic income can encourage new co-operative forms of economic enterprise based on the pooling of individual basic incomes[9]. This indeed can make *some* recipients economically more independent, but this hardly changes the lack of control over their economic life that the bulk of wage earners and their families have to face. It is currently hard to imagine the future of global capitalism as a system in which most people are either self employed or economically active as a member of a producer co-operative. Such forms of employment will have their place, but in the foreseeable future, it is unlikely that

[8] Ibid, p.215.

[9] See for example, Tony Fitzpatrick *Stakeholding, James Meade and Basic Income* paper presented at the 6th BIEN International Conference Vienna 12-14 September 1996. Fitzpatrick build upon arguments made by James Meade *Agathopia: The Economics of Partnership* Aberdeen: Aberdeen University Press, 1989.

entrepreneurial activity, albeit individual or co-operative, will become the prevailing form of participation in the labour force.

Moreover, like the juridification of dependent work or the provision of traditional social transfers, the possibility of guaranteeing a genuine basic income is being eroded by the declining capacity to impose a burden on the profitability of capital albeit directly (taxing wealth, profits and capital gains) or indirectly (i.e. taxing income, collecting social security contributions, and employment protection legislation also render a national economy unattractive for investors). In the context of economic internationalisation and the increased exit options this provides for fickle investors, the relative security of a basic income would not only be short-lived (in that the level of taxation required to guarantee a substantial benefit would soon become untenable)[10], but also increasingly loose its value as a bargaining asset for labour.

Basic capital schemes could alleviate some of theses problems. Supplementing (or partly replacing) the income-based redistribution of existing welfare states by a form of asset-based redistribution not only can give people a more active stake in their economic fate, but also can make the wage-earning population less dependent upon the current or deferred remuneration for their work. But individualistic basic capital schemes, just like those who consider a basic income as a cushion for risk bearing, consider individual or co-operative entrepreneurial activity as the main remedy against the paternalism of social transfer[11]. Even though in recent years one could observe a marked rise in relative importance of self-employment, most of those involved in this type of activity are not dynamic entrepreneurs but people who have been forced out of their status of wage earner by their employer (in effect shifting many of the burdens of risk taking onto labour, while keeping most of the benefits for himself), or who have made a desperate attempt to escape unemployment (investing their redundancy money to find themselves soon out of business). An overall majority of those living in advanced

[10] Economic internationalisation also undermines the Keynesian rationale of basic income schemes: if in the past it was possible to deflect part of the cost of social transfers to local producers, in exchange for assuring that those producers would also benefit from the increased purchasing power of a national population, in the new global economy there can no longer be a guarantee that organised wage earners or beneficiaries of social transfers will spend their income on domestically produced items. In part as a response to this trend, domestic producers are increasingly oriented towards world trade and as such become less and less dependent upon domestic demand.

[11] One could argue that most basic capital proposals think primarily in terms of individual entrepreneurs, and that in an Agathotopia such as Meade envisages, more thinks in terms of co-operatives (his so-called Labour-Capital partnerships), but there is nothing in principle that would prevent individuals from combining the basic capital endowment they would get under the scheme of Ackerman and Alstott.

capitalist economies still are and are likely to continue to be employed as wage earners whose economic fortune is largely left to the investment decisions of capital markets. A basic income nor an individual initial cash endowment would allow them to play a more meaningful role in the decisions that affect their economic life.

3. Basic Capital – What Kind of Capital?

Most basic capital proposals envision an endowment paid in cash with no (or only few) restrictions as to nature of the investment it helps to fund[12]. Bernard Berteloot, for example, proposes to grant each individual upon reaching the age of 28 a lump sum of about forty thousand Euro. This general revenue financed grant he calls "l'Avance sur Héritage" (AsH) or "an advanced payment on inheritance"[13]. That is one of reasons why if by the age of 28, the person already inherited something, his AsH is to be reduced by 50% of the value the beneficiary already inherited. Berteloot also proposes to reduce the AsH for those who benefited from a university education (as a kind of reimbursement of the costs). Writing in the context of France, Berteloot takes for granted access to university to be nominally almost for free. This is different in a more recent basic capital proposal formulated by two American scholars. Bruce Ackerman and Anne Alstott propose to endow every citizen upon reaching the age of 21, who has been a resident in the country for at least 11 years with a one time grant of eighty thousand dollars. Though more than double the amount, people are also expected to finance their university education with this endowment, which in the United States – taking into account only tuition fees – would require young adults to spend between a third and the totality of their basic capital. If for Berteloot the basic capital is to *supplement* existing welfare state institutions, the Ackerman/Alstott proposal is to be part of a far more radical overhaul of social policy and *replace* many existing programmes – especially if their ideas would be superimposed on European welfare states.

Berteloot only proposes marginal cuts in pension benefits, civil servant wages and housing allowances (most of the latter would become obsolete because all young adults would be in a

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[12] Even if some authors have proposed to limit the use of the initial endowment to certain prescribed purposes such as higher education or vocational training. See, for example, Roberto Unger "social endowment accounts" *What Should Legal Analysis Become?* London: Verso, 1996, p.14-15; Robert Haveman "universal personal capital account for youth" *Starting Even* New York, NY: Simon & Schuster, 1988, pp.168-171.
[13] Bernard Berteloot *Un Capital. De l'Etat Redistributeur à l'Etat prêteur* Jas, 1996.

position to buy real estate, either using their grant or using it as collateral for a mortgage). Ackerman and Alstott want to "rethink" the entire New Deal social security system, and consider one of the main purposes of their scheme to lie in the democratisation of the access to higher education. In this respect their scheme is far more libertarian, in that it gives the same financial support to all young adults irrespective of how long they want to study. They see it as a fundamental right to have the freedom of choice to opt between using the endowment for very different purposes ranging from higher education over buying a house, setting up a business, saving for the future to simply keeping it as a "rainy day fund". It is each adult's individual freedom and responsibility which of these purposes he considers to be more worthwhile. Though they recognise that this is only a freedom to choose among restricted options, they argue that each of us must confront the facts of scarcity and mortality and play down the fact even with a their basic capital scheme in operation, this scarcity will continue to be vastly unequally distributed. Freedom indeed is always a "gamble"[14], but this is of course much more so for those who only have their basic endowment to invest and who will have to take responsibility in case they "mess up".

Berteloot too proposes an almost complete freedom of choice as to how to invest the basic capital each adult is to be granted under the scheme he proposes, but as the scheme is not to replace existing programmes (with the possible exception of housing allowances) this freedom has quite different implications. Possible uses of the AsH Berteloot envisions range from buying a house, over setting up (or taking over) a business, to buying stocks or bonds. He too recognises the possibility that beneficiaries can squander their basic capital or simply use it for consumptive purposes, but such misuses he considers acceptable in order to maximise freedom[15].

Both proposals stress the expected educational effects of introducing a basic capital endowment. Ackerman and Alstott argue it will function as "a symbol of hope"[16] for children born at the bottom and that it will foster responsible action and will the beneficiaries – in particular the disadvantaged – to take "the longer run seriously"[17]. In a similar vain Berteloot claims it will make recipients make more out of existing educational opportunities and encourage them to trade fatalism and revolt for hope and resoluteness.

But one can question in how far it makes sense to force young adults to make a choice between options that are supposedly alternatives, but upon closer examination turn out to be

[14] Ackerman and Alstott, 1999, p.43.
[15] Berteloot, 1996, p.21.
[16] Ackerman and Alstott, 1999, p.30

each of them in their own right essential components of an inclusion into society. In particular under the scheme proposed by Ackerman and Alstott, that is to replace large parts of existing welfare states, young adults are expected to make a choice between ***either*** a university degree, a secure roof over their head, ***or*** a rainy day fund to provide for financial security in case of unemployment etc. By offering such a broad freedom to invest the basic endowment, their scheme promises a solution to every conceivable social problem, but underplays the problem that an individual can only use the grant for one purpose. If a recipient will opt for a university degree, he will have to do without a rainy day fund or the possibility to buy a house (at best he can hop that his university degree will give him a competitive edge on the labour market, and increase his income in such a way that these other goals come into reach)

Ackerman and Alstott call their basic capital grant "a stake" because it is to allow each citizen to "appear on the economic stage as an economic citizen whose fate cannot just be left to an "invisible hand" that conceals the accidents of family background and failures of public policy"[18]. Though they also justify their scheme in terms of combating economic disparities and fostering active economic citizenship, in fact a closer examination of their argument reveals that their main concern is more narrowly that of equal opportunity – something that, for instance, becomes evident in the central importance higher education plays as a reference in their scheme. It is true that the scheme they propose would have the advantage that it could strengthen the economic independence of those who do not opt to study beyond secondary education, by providing them with have a starting capital to become self employed or because they would not be forced to take up any low paying job (consuming instead part of their basic capital). But it is questionable if this really would liberate young adults from the economic dependence that follows from extreme inequalities in the ownership of property[19]. The adoption of their scheme could lead to a dramatic increase in attempts to set up small businesses, but how many of those would be able to survive both against their better educated competitors or global operating firms. In this respect there seems to be a certain nostalgia to the American Dream or a kind of founding fathers capitalism in the Ackerman and Alstott proposal, a vision of an economy based on small entrepreneurs.

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[17] Ibid, p.43

[18] Ackerman and Alstott, 1999, p.33.

[19] In this context Ackerman and Alstott explicitly refer to James Meade *Efficiency, Inequality and the Ownership of Property* London: Allen & Unwin, 1964. In our view, Meade's argument involved much more than the sort of equal opportunity Ackerman and Alstott scheme provides.

In the end, the sort of stakeholding Ackerman and Alstott have in mind boils down to "fair starting point for all"[20]. The basic capital endowment is to give each individual citizen an equal opportunity to exercise the freedom "to shape her outcomes as she thinks best"[21].

This is a far cry way from the sort stakeholding advocated by earlier contributions to the debate on a stakeholder economy. This debate started of from the idea that capital should not be dissociated from its social context. At the heart of the debate lied a concern with the architecture of the financial system and the sort of economic activities it brings about. Stakeholding was to put a check on the absoluteness of property rights by fostering greater corporate responsibility. The stakeholding philosophy urged management to be less concerned with shareholder dividends and take greater account of the interests of employees, consumers and community[22]. In discussions on pension reform, the stakeholder concept became attached to the idea that each citizen should have a tangible stake in national prosperity via funded pensions[23]. At the centre though, remained a concern with economic governance: public pension funds were to be used to promote wider economic and social objectives and this was in part to be accomplished by a more active representation of policy holders on management boards.

By arguing that there is no reason to limit stakeholding "to cases involving physical assets like housing or factories" Ackerman and Alstott considerably changed the focus of the debate away from issues of corporate governance and control over the investment process, to a concern with equal opportunity in the market place, to be brought about by a fair share of financial wealth at start of each citizen's adult life.

As such they tend deflect attention of the main source of inequality in modern capitalism: the unequal distribution of capital in a "narrow" sense of the word: the ownership and control of firms.[24] A fair starting point in the form of a equal lump sum for every adult citizen will hardly change this form of social exlusion.

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[20] Ibid, p.5.

[21] Ibid, p.24.

[22] See for example Will Hutton *The State We're In* London: Vintage, 1996. In this context it is ironic that Ackerman and Alstott see the privatisation of public housing under the Government of Margaret Thatcher as an initiative bearing a "family resemblance" to their proposal.

[23] See for example, John Plender *A Stake in the Future: the Stakeholding Solution* London, 1997.

[24] Thus if in West Germany in 1974, the Gini coefficient for inequality in the ownership of cash deposits in savings accounts was only .37, for stocks and bonds it amounted to as much as .82. See Horst Mierheim & Lutz Wicke *Die personelle Vermögensverteilung in der Bundesrepublik Deutschland* Tübingen: J.C.B. Mohr, 1978.

Even if Ackerman and Alstott propose to finance their scheme by what in essence is a wealth tax[25], to be paid during a person's life-course up to the point the basic endowment is repaid, and that this will imply quite a notable redistribution of financial wealth[26], it will not change in any significant respect the way in which power is being exercised in the economy. With their basic endowment, citizens can only act responsibly at the margins of an advanced capitalist economy or hope to gain power by becoming themselves entrepreneurs. If they decide to use their capital endowment for educational purposes, to buy a house or as a "rainy day fund", this will not get them any closer to central leavers of economic decision making. Even if individually they would to decide to use their basic endowment to buy stocks or invest in pension plan, this would at best turn them into the passive owners of capital. That could ensure that the benefits of equity ownership would be distributed on a somewhat fairer basis, but it would not bring about more equality in governance of the economy or in the control over productive assets, and thus would not increase citizens stakes in the economy.

If economic citizenship is to imply not merely an entitlement to a share the product of an economy, but also a capacity to participate in the control of the activities that yield this product, it is not enough to endow every citizen with a starting capital and subsequently bank on the free market for a conversion of this cash grant into fair share in the exercise of economic power. Contrary to what Ackerman and Alstott claim, the fate of their economic citizens is – after they have been endowed with a basic capital – effectively left to an "invisible hand": "success in life ... will depend upon each individual's personal ideals and his abilities to achieve in a competitive marketplace"[27].

The analogy they try to make between the principle of one person-one vote as the expression of political citizenship and the equal cash lump sum as an expression of economic citizenship does not seem warranted. It is hard to see a parallel between the collective action typical of

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[25] As a tax basis they proposes to include individual wealth of whatever form: stocks, bonds, bank deposits, houses, cars family firms, the vested value of pensions, social security entitlements, except of course the value of the basic endowment as to allow people to maintain their basic grant without paying taxes.

[26] In this respect, their scheme is more re-distributive than the AsH scheme of Berteloot. Because the latter optimistically estimates that once his scheme has matured, about 75 will be able to pay back their basic endowment under the form of an inheritance tax: a deduction of what they inherit at a later stage in their life course (those who will not inherit anything will be exempted from paying back their AsH), he sees the issue of financing primarily as a transitory problem. In order to put his scheme on tracks, he proposes to use the proceedings of privatisation (an option more available in France than in most other OECD countries, a moderate wage cut for civil servants and in pension benefits as well as expected increases in efficiency in the sickness insurance system. Once the AsH will have maturated, it will be largely self-financing (i.e. rely on capped the inheritance tax), with the remaining costs being covered by general revenue financing. The more the state will not be able to reclaim its advance the less the scheme will cause a re-distribution of wealth. Ackerman and Alstott are less naive when it comes to assessing the possibilities to get people to pay back their basic endowment at the end of their life, and therefore favoured the format of a wealth tax extended over a persons entire life course.

political processes with the atomised exchanges between individual agents typical of market processes – even if those individual agents are endowed with an equal basic capital grant. Moreover, if the capacity to affect political processes with a vote remains the same throughout a citizen's lifetime, this is not the case with the capacity to influence the outcome of economic processes with a basic capital grant.

In order to turn a basic capital endowment into a "voice" mechanism that endow citizens with a control over their economic life, comparable to the way in which the one-person one vote principle exemplifies political citizenship and citizen control over their political life, it needs a set of rules and institutions. Such an institutional framework that could raise citizen stake in the economy has also been at the centre of debates on the architecture of funded pension schemes.

4. Basic Capital and Stakeholding: Lessons from the Debate on Funded Pensions

Our interest here in funded pension schemes lies less in the sort of benefits they can pay out to retired workers. Even though in principle it should not be ruled out that such schemes would provide a kind of basic income for the elderly population, this is currently an unlikely alternative in view of the contributory nature of those arrangements. The best one can hope for is a weakening of the link between contributions and benefits, trading strict actuarialism for some degree of redistribution. Even if a basic pension would be part of the funded pension package, the limitation of the eligible population to the elderly would still be at odds with the logic of an unconditional basic income for all. At this stage we are more interested in the opportunities funded pension plans offer for the generalisation of the ownership of productive assets and citizens' stakeholding in the economy. Such schemes indeed could be considered to form a first step towards a more general basic capital scheme, that can offer the wage earning population an alternative way of gaining control over their economic life than the option to become self-employed or get engaged in a co-operative form of entrepreneurial activity. A partial socialisation of the investment process would give those who continue to be employed as wage labourers more control over their economic fate. Subsequently one could think of extending such old age arrangements towards a universal social dividend not that different from the sort of schemes that have been proposed by James Mead and Anthony

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[27] Ackerman and Alstott, 1999, p.33.

Atkinson[28]. The benefits than would not be limited to the elderly, but would be part of a basic income scheme.

Funded pension plans have always had the potential for enhancing the participatory and civic responsibility of ownership of capital, but this potential is being frustrated by the prevailing architecture of such schemes: membership of such plans tends to be restricted to people with a labour contract, and this restricted group of members is generally being treated as passive investors with no responsibility for the way in which the vast amount of capital they collectively hold is put to use.

The restriction to wage earners or to those pay a contribution calculated on the basis of a market earnings has the advantage that it makes it more easy to claim ownership of the funds that are accumulated, but it inevitably leaves out many adult citizens who perform valuable work in their families and communities without though receiving a market income. One way to overcome this problem would be confer ownership rights in pension funds not simply by virtue of contributions paid on the basis of market income, but to recognise a broader category of social contributions that would also include such activities as education and training, home care for infant children or elderly people, voluntary work in a recognised association etc. A similar idea can be found in Anthony Atkinson's proposals for a "participation income", and even some existing pension systems to recognise education and raising children as a contribution increasing entitlement to benefits. A more radical approach would adopt the logic of basic income advocates and vest ownership rights to all adult citizens. One could also think of a multipillar system with a basic pillar where all citizens have ownership rights and claims to benefits, a second pillar where rights and benefits are linked to social contributions.

The second problem, that of passive ownership is part due to the way in which the development funded pension schemes has exacerbated an important paradox of modern capitalism: the separation of ownership and control. Though funded pension schemes have dramatically broadened share ownership, this paradoxically has boosted the leverage of traditional financial institutions and handed significant economic power to financial fund managers[29]. About 80 per cent of this capital is controlled by a small group of banks and

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[28] James E. Meade *Liberty, Equality and Efficiency* London: Macmillan, 1993; Anthony Atkinson "Social Policy, Economic Organisation and the Search for a Third Way" in Zsuzsa Ferge and Jon Eivind Kolberg, eds. *Social Policy in a Changing Europe* Frankfurt: Campus, 1992, pp.225-236. A major difference though is that where Meade and Atkinson want to base their social dividend fund on the principle of beneficial ownership by the state, and want to refrain from intervening in the control over the economy, we are more interested in active ownership.

[29] To the extent that Ackerman and Alstott's stakeholders would decide to invest their basic capital endowment into a mutual fund or in a pension plan this development would gain even far more relevance.

insurance companies, such as Bankers Trust and City Bank in the US, or Barclays in the UK. These professional fund managers enjoy a very large discretion over what happens to the money, and his has made them arbiters of hostile take-overs and corporate policies, as well as the purchase of national debt with dramatic effects for national exchange rates and interest policies[30]. Fund managers are required by law to look for the highest monetary rate of return, regardless of the consequences for employment, the environment or the social infrastructure of the community of insured. On the one hand policy holders of a pension fund individually are to bear the financial risks and collectively the social and environmental consequences of investment strategies, but on the other hand they are denied to have any "voice" in the management board of those funds (not even the sort of rights that are taken for granted for normal shareholders of a corporations, such as the right to vote out the board of directors at the corporation's annual meetings).

One could argue that the passivity of pension fund members is inevitable in that they face the same collective action problems as small individual shareholders of a corporation: one could argue that in both cases it is simply not worth the time to exercise voice and be a responsible owner. However, compared to most individual shareholders in a corporation, pension fund participants usually have a stake in their fund that is far larger in relation to their overall portfolio: shareholders investment in any single firm rarely constitutes anything like a substantial portion of their entire portfolio (in order to limit the risks of investment), while pension fund participants own interests in only one fund. The main reason for the passivity of pension fund members has more to do with the regulatory framework. Thus, in the US, ERISA, the federal statute that regulates corporate pensions, concentrates control exclusively in the trustees of the fund[31]. In the UK pension funds in essence are governed according to a trustee law that initially was developped to govern the management of the property of those who were deemed incapable of taking care of their own affairs such as minors and lunatics. As a consequence, policyholders presently have no lverage over the funds invested in their name. They cannot direct trustees to limit their investment to particular industries or geographic areas. The trustees are required to act for the exclusive benefit of the participants, but in this context the meaning of benefit is limited to maximising monetary returns to the fund. Even if they would want to, trustees are not allowed to take into account other considerations such as encouraging unionisation or promoting employment in the area.

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[30] Richard Minns *Pension Funds and British Capitalism. The Ownership and Control of Shareholdings* Oxford, 1980.

[31] Furthermore trustees further delegate important decisions to investment specialists that even less accountable.

Various proposals have been formulated that seek to reform the pension fund system in such a way as to give pension fund participants more "voice" in the management of their assets. On the one hand, there are those who see the solution in a stronger link to workplace of the employing firm. Gregory Alexander, for instance, proposes to invest a substantial part of a pension plan's assets in the stocks of the sponsoring firm[32]. As a consequence workers would become significant shareholders in their employing firm, and this would allow them to effectively monitor their main life investment -- their job. The problem with this model is that it is hard if not impossible to incorporate citizens without an employment contract. Moreover it is a very risky strategy to concentrate that large a part the assets of a policyholder in the same firm.

On the other side there are those who see the solution in a more active role of the state. Thus Richard Minns has proposed to establish a National Provident Fund (NPF), reminiscent of the Central Provident Fund in Singapore[33]. Though less centralised and more democratic than its Singaporian counterpart, Minns' NPF with its government appointed management board runs the risk of becoming another variation on paternalistic beneficial ownership. Minns proposes that regional boards would manage the local authorities funds in accordance with NPF policies and government guidelines, and that half of the member of a management board would be employee representatives, but that would leave other fund members without a voice. In the end, Minns proposal attributes to large a role to the state, and lacks civic monitoring lodged within civil society itself. In the past, such regulation and control from the heights of government, not only has proved to be ineffective, it also would fail to involve citizens or foster their sense of responsibility.

Such concerns lie at the centre of a third type of proposals that look for salvation in a revival of mutualism. Thus Robin Blackburn has proposed to use tax privilege to encourage the establishing of mutually owned pension funds on the model of friendly societies[34]. In these mutual funds each participant would be an equal member. In a similar vain, one could think of a nation wide system citizens investment funds organised on a regional basis as to prevent a monopolistic concentration of power. Such a system would be similar to the wage earner fund proposal developed during the 1970s by Rudolf Meidner of the Swedish Trade Union

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32 Gregory Alexander "Pensioners in America: The Economic Triumph and Political Limitations of Passive Ownership" in Gregory Alexander and Grazyna Skapska eds. *A Fourth Way* London, Routledge, 1994, pp.33-56.

33 Richard Minns "The Social Ownership of Capital" in *New Left Review* 219 1996, pp.42-61.

34 Robin Blackburn "The New Collectivism: Pension Reform, Grey Capitalism and Complex Socialism" in *New Left Review* 233, 1999, pp.3-64.

Confederation LO.[35] However, if the Meidner Plan wanted to make trade union leaders the main popular representatives on the management boards, and thus would have left unrepresented those who were not employed or not in a union, citizens investment funds would have a two tiered governance structure similar to that of German corporations. The management board would consist of experts, while the supervisory board would be elected in parallel elections by all citizens. Even if initially, on the benefit-side, the scheme would only be used for pension benefits, it would already give each adult citizen an effective stake in the economy. The elections of the supervisory boards would allow for a balancing of various stakeholding interests ...

[35] See Jonas Pontusson *The Limits of Social Democracy. Investment Politics in Sweden* Ithaca, NY: Cornell University Press, 1992.