RESISTING PENSION FUND CAPITALISM

A WEBINAR SERIES ORGANISED BY GRAIN
12 MAY / 9 JUNE 2022
2 PM GMT

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Agenda

1. What is ‘pension fund capitalism’?
2. The structures of pension fund investment
3. Pension plan and investment “governance”

   — Pause for questions —

4. Review of specific pension fund projects
5. Resisting pension fund capitalism

1. What is ‘pension fund capitalism’?

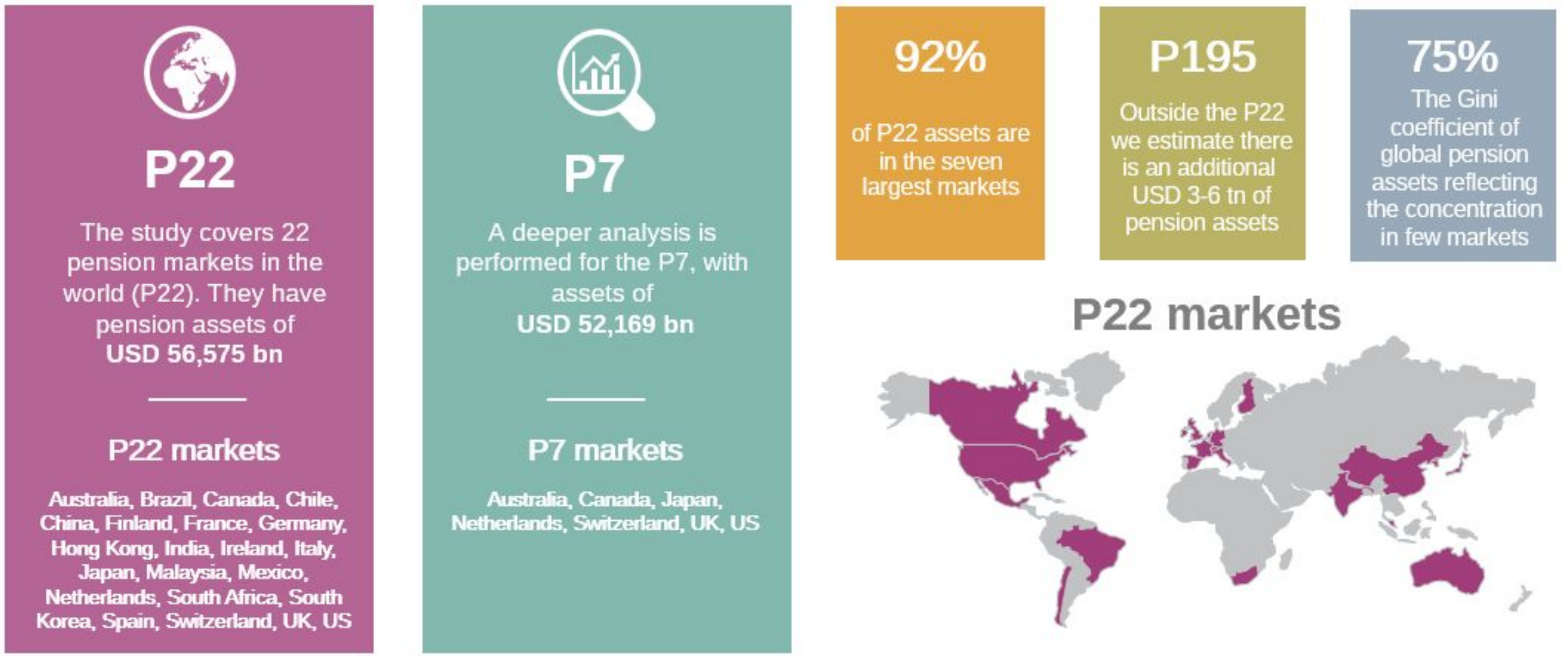
- See edited volume, *Contradictions of Pension Fund Capitalism*, 2018 (Kevin Skerrett, Joanna Weststar, Simon Archer, Chris Roberts)
- Recent work (Michael Hudson, Leokadia Oręziak) comes from researchers who focus on:
  - Enormous and rapid growth of pension funds (US$56 trillion)
  - More aggressive, predatory investment profile for many large pension funds
  - Ongoing processes of weakening pension commitments to workers
- The main ‘contradiction’ of pension fund capitalism is in the structural dependency of workers with financialized pensions (primarily in the capitalist core) on financial profits made in **capitalist financial markets**

Is pension fund capitalism providing better pensions for workers?

- In high income capitalist core countries the period of "neoliberal capitalism' has involved cuts and retrenchment to secure, "Defined Benefit" type pension provision from both state and workplace based systems
- Spectrum between individualized savings accounts (Chilean AFP, US 401K, Canadian RRSPs) and non-guaranteed "Target" plans and secure "Defined Benefit" plans has widened, as secure benefits are downgraded (ie inflation protection)
- With long period of low interest rates, improved longevity, etc., **the cost of securing 'financialized' pensions has been rising - leading to an intensified search for higher returns**
- Workers with pensions are urged to support this search as a way to protect existing guaranteed pensions (both state and workplace)

Global pensions soar to new US$56 trillion record

Pension funds globally now hold over US$56 trillion – doubling in a decade
Defined contribution (DC) pensions now 54% of assets in largest markets
UK regains second place for countries' total pension funds, overtaking Japan



- Seven largest source countries hold $92% of pension assets
- US, UK, Japan, Australia, Netherlands, Canada, Switzerland

2. New structures of pension fund investment

- Traditional North American (workplace) pension structure had *employers* or pension boards retaining (Wall St) money managers to manage
- Conventional investment model within these plans was to passively hold low risk government bonds and "blue chip" public equities
- Unions, plan members, and social activists would occasionally complain or even launch campaigns against specific (anti-social) investments, but with very little power
- Since the late 1980s, private finance itself has been transformed and pension investing practices along with it

New structures of pension investment (continued)

- Key elements of the “Canadian pension model”:
  1. ‘In-house’ investment management (saving on fees)
  2. Scale (largest 8 funds hold over C$120 billion/US$100 billion in assets)
  3. Asset class diversification, particularly in infrastructure, private equity, private credit, real estate, (ie ‘alternatives’)
  4. Geographic diversification (all restrictions on offshore investing removed in 2005)
  5. More recent addition: leverage (up to 20% of assets)

New structures of pension investment (continued)

- In earlier model, pension funds were **passive** and risk-averse, hiring external investment managers
- “Canadian model" creates entities that is **active** and open to more risk, much more like a hybrid of a private equity fund and a hedge fund, including long-term operating arms
- “Canadian model” highly respected on Wall St
- Pension fund money is found in all categories of asset management (private equity, hedge funds, etc)

New structures (continued):

Global Infrastructure Investors Association

3. Pension plan and investment governance

- Pension funds have been viewed as a *potential* source of working class power if workers could gain control of investment policy
- Since the 1970s (Barber and Rifkin) there has been an ambition of using pension funds to gain real power (structural limits of this strategy not considered)
- In Canada, Australia, US, some other jurisdictions, “joint control” of even some large public sector pension plans, including investment functions, was achieved

Pension and investment governance (continued)

- The track record for unions aiming to transform pension investment policies has been extremely limited, for several reasons:
    1. Legal parameters (fiduciary duty, statutory mandates)
    2. Alignment of interests in high returns to pay pensions
    3. Institutional inertia within financial sector
    4. Transition to “expert” pension boards
    5. Dynamic of “co-optation” of union appointed trustees
    6. Lack of substantive democratic accountability on investment
- Pension funds now just as predatory as other forms of finance, taking advantage of neoliberalism, “globalization” (capital mobility), and imperialism/colonialism - but especially: **privatization**
- The result, as David Harvey has put it: "Accumulation by dispossession”

PAUSE FOR QUESTIONS

PAUSE POUR LES QUESTIONS

PAUSA PORA PREGUNTAS

4. Specific pension fund investment projects

- Pension funds have been **passively** a part of the "financialization" dynamic via higher yield bond investments and hedge funds (ie Puerto Rico, Argentina, Greece)
- Since the 1990s, pension funds have played **increasingly active** role in private equity operations (corporate governance), infrastructure privatization, and farmland acquisition

Example - CPPIB-AIMco and CEDAE privatization

- From 2018-2021, two Canadian pension funds acquire controlling interest (~86% equity) in Brazilian private equity firm Iguá Saneamento
- Bolsonaro government drives aggressive privatization program, targets publicly owned water system
- April 30, 2021 state government of Rio de Janeiro auctions off public water utility CEDAE to private bidders, including Iguá Saneamento, resulting in several parcels privatized
- Government of Brazil planning further water auctions, Iguá Saneamento plans to be an active bidder

CPPIB-AIMco and water privatization in Brazil

- No mainstream press coverage in Canada
- Excellent reporting in independent media (*The Breach*, *Jacobin*)

For more on this case, see: https://breachmedia.ca/revealed-canada-pension-plans-investing-1b-in-water-privatization-scheme-led-by-brazils-bolsonaro/

Pension funds grabbing farmland in Brazil

Pension funds use offshore structures to acquire lands in Brazil's Cerrado from local businessmen who use fraud and violence to displace local communities and to then establish industrial farms with major environmental, social and health impacts

TIAA and Harvard's

BRAZILIAN FARM DEALS JUDGED ILLEGAL

as fires rage on their properties in the biodiverse Cerrado

A VILLAGER IN MATOPIBA HOLDS TWO BOTTLES OF WATER. THE ONE ON THE RIGHT SHOWS POLLUTION BY SOY PLANTATIONS.
PHOTO: ROSILENE MILIOTTI /FASE

Pension funds and private equity in agriculture

Private equity paves the way for powerful elites and transnational dairy companies to take over dairy from small scale producers and vendors in Kenya

Herders and small farmers with local breeds of cows supply about 90% of the milk consumed in Kenya

Abraaj Group (Dubai) buys stake in Brookside Dairy, owned by family of Kenyan President, Uhuru Kenyatta

French dairy giant Danone buys 40% of Brookside, as part of expansion into Africa

Specific investment projects continued

- Many other disturbing examples can be cited, including investments in:
  - Fossil fuel exploitation and distribution
  - Housing (including single family, residential, etc)
  - Health care, long-term care
  - Mass transportation
- More detailed examples will be examined in webinar #2, June 9th

6. Resisting Pension Fund Capitalism

- Resistance against capitalist exploitation and develop continues - but does the involvement of large (mostly global North-based) pension funds offer ***strategic openings***?
- Resisting predatory or ecologically harmful investment projects can (and generally should) treat pension fund investors as just another form of private capital
- 40 years of efforts, to develop effective strategies for pressuring pension funds to change investment policies and practices - very little to show for it
- Some new, more ambitious strategies have emerged

Two strategic orientations for resisting 'pension fund capitalism'

	1. Insider	2. Outsider
Distinct strategies	• ESG • Shareholder activism • Proxy voting/'engagement' • Improving corporate or pension board diversity • Seeking more or better 'joint governance' for unions • "hot line" calls to trustee appointing unions from campaigners	• Mass social mobilizations (unions, social movements, international networks) • Raise costs and risks of damaging projects • Political/state interventions against projects (ie Revera, Orpea) • Legal restrictions on pension fund investing (ie farmland in Canada) • Public policy to rein in private finance, return to PAYGO and non-capitalized pension systems
Cross-cutting strategies	• Divestment/Reinvestment • Call for more investment disclosure to members and the public	

Resisting pension fund capitalism: final comments

- Pension funds are generally supported by public policy, enjoy favourable tax treatment, and other benefits
- Workers with financialized pensions have a “double dependency”:
  1. Dependency on high returns
  2. Dependency on *favourable conditions* for high returns
- Breaking from these two dependencies will ultimately require a break with depending on capitalist financial markets to deliver pension security

Thank you

Merçi beaucoup

Muchas gracias

Obrigado