Reinforcement of pension financialisation as response to financial crises in Germany, the Netherlands and the United Kingdom

Tobias Wiß

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Since the beginning of the 2000s domestic and international economies as well as pension funds have been experienced a series of financial and economic crises. In light of two major financial market crises (2001/02 and 2007/08) that caused stock market downturns and drops in equity returns and the sovereign debt crisis (started in 2011) that threatened states' solvency and negatively affected bond investments, we could expect a sinking of the paradigm that markets know best and offer appropriate solutions for the provision of welfare, known as financialisation.

In general, moments of crises are major shocks to existing equilibriums and policies and open windows of opportunity for policy change. Did these negative experiences for pension funds trigger a slowdown or even reversal of the pension financialisation paradigm? This paper analyses whether Germany, the Netherlands and the United Kingdom – all with a diverse institutional environment – adapted their path of pension financialisation via re-regulation (de-financialisation) or whether they took further steps along the pension financialisation path.

A broad research industry has been established that investigates the effect of financial market crises on social policy and the way governments and welfare states respond. Most of the literature that deals with recent financial market crises study public economic and financial policy as well as public social policy, in particular (un)employment policies. However, much less is known about pension fund responses, although most of them suffered heavily during recent crises.

Despite different institutional contexts, pension systems, and even varying degrees of pension financialisation prior to the 2000s, Germany, the Netherlands and the UK responded to recent crises in a similar way and reinforced the reliance on market solutions despite failures in three financial crises. They relaxed funding requirements, introduced real market values for the calculation of pension liabilities and increased individual risks by shifting away from (final-salary) DB schemes. Non-market actors such as employee representatives were weakened in the Netherlands and the UK with new rules for the composition of pension fund boards in order to increase financial market expertise in pension fund decisions. Most measures by pension funds and governments in reaction to financial crises had not the intention to tame pension fund capitalism nor to halt or reverse the process of financialisation. They rather ensured that pension fund markets work better in line with the rationality of financial markets, reinforcing the path of pension financialisation.

As the main reason for the reinforcement of pension financialisation despite three financial crises the article argues with entrenched interests. The pension industry, employers, but also pension fund members, trade unions and the state, they all have – for different reasons – no interest in the collapse of pension funds and therefore believe that defects can be repaired and markets will recover.

Author:
Tobias Wiß, Johannes Kepler University, Linz (tobias.wiss@jku.at)