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The illusion of patient capital: evidence from pension investment policy in the Netherlands

Francesco Macheda[]

This paper takes issue with the popular idea that the involvement of labor unions within occupational pension funds would hinder short-term profit-maximizing strategies that instead characterizes private pension schemes in Anglo-Saxon countries. The aim is to contribute to demystifying this myth by looking at private pension institutions under the assumption that deregulated financial markets are not neutral and engender a network of power relationships which goes beyond direct market participants. The thesis of this paper is that the high profitability generated by speculative investments leads to a new political compromise between firms and organized labor, insofar as the buying and selling of easily liquidated assets by occupational pension funds guarantees high net-salary levels and generous pensions, without undermining the competitiveness of the firm – at least in the short run. On the other hand, however, it dramatically increases the intrinsic risk of a pension system that, in fact, depends on the state of health of global finance. Finally, we test our hypothesis by examining the investment strategies in the Netherlands, where occupational pension funds have been historically embedded within the structure of neo-corporative interest mediation.

Keywords: Private Pensions, Labor unions, Power, Investment Decisions
JEL Classifications: J32, J51, G11

1. Introduction

Present-day reformist views concerning the capacity of trade unions to influence the investment strategies of the private occupational pensions which they jointly manage with the employer federations do not simply enjoy wide currency among the academic community, but are also widely disseminated among working people. Typically, reformist scholars favoring a neo-institutional approach (Estevez-Abe, 2001; Engelen, 2003; Clark and Hebb, 2004; Dixon, 2011; Ebbinghaus and Wiß, 2011a; Naczyk, 2013, McCarthy et al., 2016) tend to appeal to trade unions as a force capable of 'perfecting' private pension schemes, by removing their social and economic contradictions and transforming them into a more equitable distributive system.

Through their political action, it is alleged that labor organizations are able to exercise their influence over the investment decisions of pension funds, for example by increasing their 'time horizon', thereby incentivizing firms to conduct long-term investment in plant, equipment and technological innovation. It is further argued that the provision of patient capital would not only insulate workers' savings from financial instability, but would also support full employment, higher wages and a strong consumer demand in the real sector of the economy.

In support of this thesis, neo-institutional scholars take as an example the Dutch pension system, whose 'quasi-monopolistic features' are alleged to have delivered low levels of public spending and high

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living standards for pensioners (Van het Kaar, 2008: 168; Kooreman and Prast, 2010: 111; Guardiancich and Natali, 2012: 308). According to such school of thought, trade union participation in the management of Dutch occupational pension schemes reinforces their institutional position: whereby the individual pension funds typical of liberal market economies are traditionally oriented towards speculative short-term investments (Crouch, 1993; Visser, 1998; Hall and Soskice, 2001: 19-20; Regini, 2001; Rhodes, 2001; Bridgen and Meyer, 2009; Ebbinghaus, 2011; Kemna et al., 2012: 32), the presence of unions on the management boards of pension funds ostensibly offers a counterbalance to the growing dependence of workers upon financial markets, given their ability to steer pension savings towards longer-term investments which benefit all stakeholders: companies, workers and pensioners (Visser and Hemerijck, 1997; Ferrera et al., 2003: 65-66; Poutsma and Braam, 2005; Whiteside, 2006: 47; Ebbinghaus and Wiß, 2011b; Wiß, 2015: 137).

Reality, however, offers a compelling refutation of such views. The historical evidence completely disproves the notion that the Dutch trade unions have prevented a systematic outflow of workers' savings from the realm of production to the realm of speculation, including stock markets, real estate markets, derivatives markets, future markets, commodity markets and similar speculative markets. The goal of this paper, however, is to demonstrate, also and especially from a theoretical point of view, how the illusion that trade unions can be used to 'regulate' the investment process is built upon a problematic lack of class perspective, which in turn is grounded in the unrealistic premise that policy-making is a simple matter of individual choice. Social scientists working within this economic approach to politics place a disproportionate emphasis on the mental processes of individual agents (be it a person, trade union or state) as a way of explaining the investment decisions of such agents. Accordingly, the trade union is viewed as an isolated agent detached from the context of which it is a part, who chooses among alternative investment strategies based on how it thinks those allocation strategies will affect its members. Excluding irrational and opportunistic decisions, the trade union freely expresses its preferences over investment alternatives, without any form of social coercion or power relation.

Against this background, I will adopt a Marxist conception of power (Palermo, 2007, 2017), according to which market competition acts as an external coercive mechanism with asymmetric effects on the various social classes, thereby compelling agents to behave in certain ways. I will argue that the absence of collective subjects defined in class terms leads (allows) reformist social scientists to skate upon the surface of economic and political phenomena, and to ignore the impersonal power relations that influence the behavior of union and constrain their ability to influence the investment strategies of occupational pension funds.

This essay is structured as follows. In the next section, I will examine pension fund institutions under the assumption that the capitalist market is not neutral and engenders a network of power relations – sometimes at a purely impersonal level – which goes beyond direct market participants. This framework is used in the following section to analyze the impersonal forms of power that constrain the influence of labor unions over pension funds' investment strategies. I will argue that, in a historical context characterized by slow growth of the real economy and vigorous development of the financial sector, trade unions have lost much of their ability to protect workers' savings and to channel these towards safe, long-term financial investments. In section 4, I will analyze the neo-institutional approach to the study of pension politics. I will critically discuss the logic of such approach, which views trade union primarily as an instrument to restore Pareto efficiency. Finally, I will test my initial hypothesis by examining investment strategies in the Netherlands, where occupational pension funds have been historically embedded within the structure of neo-corporative interest mediation between trade unions, employers and the state.

2. The coercive role of competition and the decision-making context of pensions funds' politics

Acknowledging the power relations at play in society strongly affects our interpretation of the role played by trade unions within occupational pension funds. In this section, I will show how the analysis of power relations cannot limit itself to the more or less observable relational conflicts. It must delve into the structures and mechanisms that regulate these relationships and condition their choices. The central question in the study of power thus becomes that of explaining the mechanisms that limit or expand the 'power-to-act' of certain agents rather than others (Lukes, 1974). In capitalist economies, the asymmetrical distribution of power among players resides in the class structure of capitalist society (Marx, 1847; 1867). Certain agents are more constrained in their ability to exercise power not because they are poorly informed, less competent or more inclined to adopt an opportunistic behavior, but because the capitalist market in which workers and employers operate is 'a system of power, with particular empirical manifestations of an underlying non-observable power structure'.[1] (Palermo, 2016).

The unequal distribution of power-to-act between workers (and their representatives) and employers resides in the fact that the power-to-act of labour is a subset of the firm's power to accumulate, since the former faces a constraint that the latter doesn't. Such constraint resides in the asymmetrical distribution of private property between social classes, which limits the options available to the various classes: while a firm may temporarily delay the purchase of labor, workers have no choice but to sell their labor on the market. The reason for this is that they don't have access to the means of production, i.e., the tools and raw materials necessary to carry on the productive activity that generates the workers' means of consumption. Given the existing socio-economic context, workers have no choice but to work for their employers. This, in turn, implies that the market cannot be idealized as a power-free institution.[2]

Identifying the 'hidden' dimension of power between social classes is of fundamental importance to fully understand the mechanisms which guide the decisions of the actors involved in the management of pension funds. In capitalist economies, the unions' decisions relating to the allocation of pension funds take place within a coercive structure that forces labor to preserve the competitive capacity of the firms which they ultimately depend on for their reproduction.[3] In this sense, competition can be viewed as society's primary regulatory mechanism, giving economic players no other choice for their survival but that of their product on the market at a competitive price (Brenner, 1986: 33-34). A slowdown of firms' productive capacity result in a failure to stimulate market growth, which negatively affects not only the business sector, but also another commodity: labour (Gough, 1979; Silver, 2003). This means that if we accept the inevitability or desirability of a capitalist market economy, the firm's profitability may very well be in the worker's interest (Caporaso and Levine, 1992: 63), since the market stagnation that results from real wages growing faster than productivity causes investment to fall. Under these circumstances 'capitalists make little profit and accumulate little capital. Productivity stagnates. Wages do not improve and workers suffer from high levels of unemployment' (Caporaso and Levine, 1992: 17). Therefore, by following laws that are independent of the wills and desires of individuals, the impersonal mechanism of competition 'constrains the goals and strategies which unions can adopt without provoking a challenge to their security or their very existence' (Hyman, 1975: 200).

2.1 The socio-economic function of pension funds within a classical political economy perspective

The recognition of the capitalism's inherent class structure implies that the distribution of income between wages and profits is 'the central drama in a capitalist economy' (Michl, 2002: 240). Since the rate of profit is an inverse function of wages, there exists an inverse relation between the wage rate and the accumulation rate. Higher wages, both direct and *indirect*, translate into lower profits, eroding the firm's

capacity to invest.[4] A higher employer pension levy, for example, further squeezes the rate of profit. That is because, even though pension contributions appear to come from two sources (workers and capitalists), in it is the latter that pay the workers' wages, and thus by definition also their social security contributions. Any increase of such contributions would result in a reduction of profitability and thus of the profits available for reinvestment by firms. This establishes a complementarity between pension funds and capital accumulation, to the extent that 'a trade-off between consumption against savings and investment [is established] in which wages are 'deferred' for a share in capital' (Minns, 1996: 42). In other words, the pension fund can effectively play a positive role when it encourages the 'employees to acquire ownership of capital in lieu of wage or salary increases' (Minns, 1996: 42), so that firms may have more internal resources to use for investment, which in turn will allow them to increase the productive efficiency necessary to sell at the same unit price more output than their 'competitors'.

Thus, the best way workers' organizations can forward the interests of their members enrolled in an occupational pension plan is 'to increase the profit share of national income, and to claim a larger portion of that profit share' (Henwood, 1998: 293) in the form of capital income. Where opportunities for profitable investment in the country's real sector arise, workers' contributions will be used by pension funds to buy bonds issued by the productive units on the primary market. Such securities represent a capitalization on the income flow produced by the corporate sector, a part of which then gets distributed to pensioners. In this case, the interests and dividends accrued by pension funds, needed to generate the flow of income to pensioners, represent a redistribution of income which they contribute to expand.

3. How market power constrains unions' decisions over pension funds' investment strategies

The expansion of corporate savings which can be expected from wage moderation (resulting from collective negotiations between employer associations and unions over occupational pensions[5]), however, is not in itself a guarantee that domestic firms will increase real investment. The level of union wage demands and the general conditions of profitability are factors that significantly affect the ability of pension funds to positively contribute to capital accumulation, as well as the capacity of unions to effectively use their voice as shareholders to steer the funds' investment decisions. It is therefore necessary to analyze the way in which pension funds depend on the productive and financial spheres for the inputs needed to produce a residual reward to their future and current pensioners, often in the form of profits, since 'their survival depends upon generating this surplus' (De Deken, 2013: 272). Recognition of the decisive role of production is the key to correctly understanding the complexity of a system which 'distorts the identities of stakeholders by metamorphosing workers into investors and, in turn, dividing labor against retirees, the state, and itself' (Brennan, 2005: 46).

3.1 The defense of pension funds' monetary assets and productivity slowdown: two side of the same coin?

Firstly, it must be noted that in a competitive context, the precondition for improving the profitability of firms resides in the introduction of productivity-boosting technological innovations. Within a classical-Schumpeterian framework (Schumpeter, 1942; Foley and Michl, 1999: 288-91), the firm's decision to invest in research and development is a variable of the wage share of the total cost: the higher the share, the more profitable it becomes to make investments aimed at increasing labor productivity.[6] This implies that stagnant wage growth eliminates (or reduces) the firm's incentive to innovate. This results in lower productivity and profitability growth in the long run.

This brings us to the first paradox that unions have to deal with in their twin role as creditors and defenders of the purchasing power of workers and pensioners. In capitalized pension systems, part of the

money (not yet) received by the worker in exchange for his/her labor is invested in bonds issued by the corporate, government or financial sectors. The resulting credit relation that develops between pension funds and firms thus creates future obligations, since both subjects – the pension funds that lend and the firms that borrow – are making a bet on the future based on the return of capital.

The accumulation of such bonds changes the behavior of the economic agents involved. As net creditors, unions that participate in pension funds have material reasons to oppose wage demands that on one hand may stimulate productivity-boosting technological investment, but on the other may generate inflationary tendencies, which would erode the purchasing power and capitalized savings of workers. This is why 'the development of supplementary pensions appears compatible with just one trade union strategy, that of social concertation and of incomes policy' (Bruni, 1996: 721), through which the union assumes a strategic role in guaranteeing ex ante the socioeconomic conditions necessary for protecting the pension fund's monetary assets.

3.2 Diminishing domestic profitability and the export of workers' savings

Secondly, classical economists reject the legendary assumption held by neoclassical economists that all savings are automatically used to create new capital (Gürak, 2015). Classical economists assert that when investors' expectations regarding the future growth of the economy are severely depressed, an increasing number of enterprises seek to counter diminishing returns by: a) diversifying their activities across locations; and b) diverting a growing mass of their capital away from trade and production towards purely financial investments. In this subsection, I will deal with the first issue.

In the absence of profitable investment opportunities at the domestic level, firms tend to seek for investment opportunities abroad, often in jurisdictions characterized by generous tax regimes and low labor costs.[7] The inflow of foreign investment towards low wage countries 'is an expression of the international dynamics of savings, but also reflects the conditions of valorization in emerging markets' (Morera and Rojas, 2009: 19-20). This hypothesis is consistent with the one espoused by Lenin (1917/1999: 71), according to whom 'capital export does not represent an isolated phenomenon. The need to export capital arises from the fact that in a few countries capitalism has become "overripe" and capital cannot find a field for "profitable" investment. This contradiction demands a solution, which it finds in the export of capital'. Of course, the search for profitable investment abroad implies an export of capital, which deprives the domestic economy of a share of national savings that could otherwise be used for investment in the country of origin. This means that workers will not benefit from any increase in employment (and, potentially, in wages) in the national industry.

3.3 Diminishing domestic profitability, speculation and wealth effect

The other response by firms to the lack of profitable investment opportunities in the domestic productive sector consists in diverting a growing mass of their capital from the real economy to speculative activities in the financial sector. When individual firms believe that the prospects for profit-making in the real sector are not satisfactory, savings tend to flow away from investment in productive capital towards investment on financial markets (Arrighi, 1994). In this case, 'money will generate more money' without spurring any changes in the mode of production or stimulating innovation in a country's technological base or social organization.

However, it must be noted that speculative investment can indirectly favor productive firms. Since the pension funds' returns are equal to the total sum of the contributions that flow into capital markets multiplied by the rate of interest on investment, it follows that a higher interest rate means that less contributions are necessary to finance the pensioners' income. Therefore, since the surplus generated by the appreciation of stock values results in lower pension levies, productive firms have an incentive to create structures which induce the management boards of pension funds to embrace strategies aimed at

maximizing returns. The resulting reduction of labor costs would make the domestic firms more competitive, potentially generating positive social ripple effects in the form of an expansion of productive capacity and employment, and higher wages.

Paradoxically, even workers themselves can reap an immediate benefit from speculative investment practices in a context of rapid inflation of capital market prices. The realization of capital gains from the sale of shares of stocks or bonds could allow a lowering of pension levies, which would translate into a higher take-home pay for many workers. This may explain why 'labor leaders have [...] reason to be concerned with the result' (Myles and Quadagno, 2000: 163), pragmatically opting to invest part of their contributions in shares and other high-revenue financial instruments, with the aim of reducing the fiscal pressure on workers.

The role of pension fund managers is therefore not a merely passive one: the flow of pension savings can actively contribute to capital market inflation, strengthening the path dependency of speculative growth (Monks and Minow, 2001; Toporowski, 2002). High levels of liquidity, for example, may increase the demand for stocks and bonds issued by firms, allowing these to issue more shares with which to purchase and restructure another firm in crisis, with the goal of maximizing its stock-market valuation. In the name of 'creating shareholder value', top corporate managers restructure (downsize) the corporations they control, with a particular emphasis on cutting the size and/or wage of the labor forces they employ, often outsourcing many functions originally assigned to permanent employees, relocalizing plants in other regions or countries (Lazonick and O'Sullivan, 2000; De Brunhoff, 2012: 142-7).

The corporate goal of maximizing shareholder value puts workers' representatives involved in occupational pension funds in a contradictory position, with regard to the interests of workers-investors and pensioners on one hand, and workers-producers on the other. Since every worker aims to maximize his/her financial wealth as well as his/her salary, unions are in the position of having to reconcile multiple, and often contradictory, aims. As mentioned above, the relocation of resources from the sphere of production to the realm of finance undermines the potential for job creation, stability and wage gains, with negative consequence for ordinary working people (Brennan, 2005: 44-6; Crouch, 2013: 73-76). If, on one hand, industrial action aimed at contrasting the negative effects of these processes of restructuring and downsizing on workers may allow wage earners to defend their purchasing power and occupational stability in the long run, on the other the reduction of efficiency that this would entail may undermine the corporation's short-term profit, thereby driving down the rate of return of the firm's shares. Since the equity returns of pension funds depend on the immediate pay-offs arising from the processes of restructuring, the opposition of workers to the intensification and fragmentation of production would result in a reduction of the income flows to the current workers and pensioners (Martin et al., 2012).

It is necessary to note, however, that the diverging interests of workers, in their twin role as producers and investors, and firms can be resolved (temporarily at least) via capital market inflation. If wage austerity promotes higher profits, the appreciation of stock market values, which in turn leads to an appreciation of the portfolio value of pension funds, can generate a "wealth effect" capable of sustaining effective demand even in the face of stagnating or declining real wages (Aglietta, 1998; Pollin, 2003). 'In other words, finance redesigns the various interests of workers' (Boyer, 2013: 7).

4. The individualistic roots underlying the illusion of Dutch patient capital

The Dutch case is used, consciously or unconsciously, as a theoretical justification for the promotion of private pension schemes in the major countries of continental Europe, where public pension programmes are common and are historically funded on a pay-as-you-go basis. Contributory pension systems are alleged to be unsustainable for both demographic and economic reasons. Uncritically

accepting the 'impending demographic bomb' hypothesis (Auerbach et al., 1999; Esping-Andersen, 1996: 72-3; 2002: 23; Holzmann and Stiglitz, 2001; Boeri et al., 2002; Bonoli and Shinkawa, 2005: 9),[8] reformist social scientists share the neoclassical view that pay-as-you-go pension plans reduce the incentive to accumulate private savings, thus hindering the capital investment necessary to sustain the economic growth needed to sustain social security expenditure (Feldstein, 1974; Feldstein and Horioka, 1980; World Bank, 1994; Wiedmer, 1996). This premise leads to the conclusion that private pension funds can generate a higher level of private savings than would be possible in their absence. In turn, a greater flow of savings into the financial markets will lead to lower borrowing costs, which will then induce manufacturers to borrow and invest more (Fisher, 1930). Finally, this process will support the economic growth needed to sustain the costs, or 'weight', of an ageing population. It thus follows, according to this view, that financial intermediaries such as pension funds play an essentially subsidiary role for the real sector (Clowes, 2000).

Neo-institutional scholars share the view that market-based mechanisms are more efficient at allocating social insurance contributions than public ones; however, they reject the approach adopted by apologists of laissez-faire capitalism, according to whom the automatic operation of the inner forces of the market ensures that people's savings are systematically injected into the real economy. It is acknowledged that, in the absence of regulated governance, purely individualized pension schemes are incapable of recycling 'idle' savings and corporate (retained) earnings into money capital for real investment projects that would ensure macroeconomic stability (Jackson and Vitols, 2001; Deeg and Jackson, 2006; Dymski, 2011).[9] This is because in real-world financial systems governed by radical uncertainty and historical time, the preference for liquidity on the part of wealth holders is likely to reward short-term speculative activities[10] rather than activate idle resources and use them to support long-term capital investment, characterized by high fixed costs of production. Due to the short-termist behavior of economic agents, voluntary individual saving decisions are therefore driven by herd behavior as well as by a blind optimism that prevents them from properly evaluating the quality of stocks (Borio and Lowe, 2005; Goodwin et al., 2014: 598).

This structural misallocation of resources is further aggravated by the very nature of individual pension funds, within which employees are incapable of fully controlling the pension fund managers who may act in their own interest, at the expense of those they are supposed to serve (Clark, 2004; Ebbinghaus and Wiß, 2011a). Institutionalist, reformist-oriented scholars view the activities of both employees and pension fund managers through to a neoclassical 'principal-agent' lens, according to which, in the context of highly complex financial markets, the employees delegate decision-making prerogatives over investment allocation to a money manager. The need to delegate in turn makes this relationship vulnerable to the principal-agent problem resulting from the fact that the fund manager can opportunistically follow his self-interest due to asymmetric information and 'hidden' knowledge which he can turn to his own advantage. It follows that private individual pension schemes, left to their own devices, tend to adopt aggressive investment practices aimed at taking advantage of short-term moneymaking opportunities.

In the face of individual pension plans' inherent tendency to make poor investment decisions, the trade unions are called upon to correct the inadequacies of the automatic operations of private markets. It is argued that the participation of social partners in pension policy administration provides an effective basis for the exercise of democratic rights through which to enforce certain codes of behavior that would incentivize fund managers to act in the employees' and retirees' interests (Laboul and Yermo, 2006; Trampusch, 2009). This leads to the conclusion that a collectively negotiated pension scheme equally managed by workers' and employers' representatives provides more effective channels for political intervention in financial markets, allowing trade unions to exert pressure on their counterparts and channel workers' savings towards real long-term financial investments.

This approach to pension politics views the trade union primarily as an instrument to correct market failures. If the individual pension plan fails to allocate workers' savings efficiently, the trade union steps

in. As Zafirovski (2004: 365) pointed out, to focus on economic efficiency as the objective of active labor union interference in private pension management makes this reasoning 'no more than an application of standard, almost discredited, neoclassical tools to institutional analysis', according to which the existence of power relations between agents becomes a merely empirical question, depending on the spread of imperfections in the real world (Palermo, 2016). Market imperfections are thus defined as relating to the innate quality of individuals, such as individual miscalculation, lack of competence in managing retirement savings, and opportunistic behavior. The 'scientific problem', then, becomes that of finding effective regulatory mechanisms that allow unions to exercise control *over* the pension fund manager, in order to defend the interests of employees and pensioners. Implicitly or explicitly, an important corollary of this 'principal-agent' framework is that, excluding irrational and opportunistic decisions on behalf of the economic agents involved, there is no asymmetry of power and authority between employers and workers. By transforming labor's preferences over pension fund investment policy into a governance problem, it reinforces the idea that the market, if judiciously regulated, is capable of fully exploiting society's productive potential and serving the public good.

Circumscribing the analysis of pension politics and its problems to a failure of the market simply reinforces an apologetic vision of the market, which becomes the ideal terrain of economic interaction – an apolitical, neutral space outside of history (Dugger, 1992). Irrational and/or opportunistic behaviors which push economic agents to look for speculative investment opportunities thus become phenomena in need of an explanation. On the contrary, the decisional context (the market relations) that forces labor organizations to work within the framework of private occupational funds is attributed to exogenous factors such as the ageing of the population.[11] As such, it does not receive the attention it deserves. This represents a serious limit for a school of thought – institutionalism – whose purpose is that of explaining, as well as describing, society's institutions. What is explained is how unions should correct market failures by restoring efficiency. However, 'nothing is predicted or explained by efficiency' (Caporaso and Levine, 1992: 132). The concept of efficiency does not explain 'why decision makers allocate resources the way they do' (Caporaso and Levine, 1992: 132). As a result, capitalism's central institution – the market, whose logic permeates both the institutions as well as the agents' behavior – is left out of the analysis (Bruff, 2011). From time to time, this theoretical exclusion has impaired the ability of neo-institutional scholars to disclose the coercive structure of power (namely, market competition) that disciplines the behavior of labor representatives and imposes its logic on their decisions concerning the retirement funds' investment strategies. Because there is no systemic analysis of the relation between wage demands by trade unions and business profitability (and investment), the analysis of the structural constrains and limitations which the nature of market competition imposes upon trade union action are necessarily passed over in neo-institutionalist analysis.

5. Dutch pension investment policy in the era of 'competitive austerity'

In what follows, I will test my hypothesis against the empirical observation of the investment strategies pursued by Dutch occupational pension funds in the context of intensified global competition, or what Albo (1994) terms the era of 'competitive austerity' that guided Western European and U.S. public policy from the early 1980s until the financial crisis of 2007-8. My aim is to show that the coercive mechanisms that regulate market competition have permeated the overall structure of the decision-making system, thereby severely limiting the trade unions' ability to effectively recycle the vast pool of workers' savings into domestic productive investment.

To comprehend the structural obstacles that workers' organizations face it is necessary to begin with the deep recession that hit the Dutch economy between the 1970s and 1980s (Van Zanden e Griffiths, 1989).[12] A key cause of that crisis lays in the wage increases and social achievement obtained by the Dutch

working class during the two preceding decades (Van Amelsvoort, 1984: 120; Van Ark et al., 1996: 297; Haverland, 2001: 309; Lynch, 2006: 144). These implied a serious increase in the contributions levied on firms (Van Amelsvoort, 1984: 126; Mulder and Van der Ploeg, 1989: 221). The growth of direct and indirect labor costs nullified the competitive advantage hitherto accrued by the Dutch economy, in terms of labor costs, vis-à-vis the other industrialized economies of Europe (Van Ark et al., 1996: 297; Barendregt and Visser 1997: 166). While the profit share of Dutch firms, up to the early 1960s, had been surpassed only by that of U.S. firms, during the second half of the 1960s Dutch firms started to become increasingly less profitable (Foley and Michl, 1999: 29; IMF, 1997: 206; Naastepad, 2006: 407). Combined with an increasingly volatile macroeconomic situation, this provoked an investment slump[13] that soon made the country 'the most spectacular employment failure in the advanced capitalist world' (Therborn, 1986: 152).

Rising levels of unemployment ultimately broke the unions' resistance, which convened with firms that lowering wages below the level of those of the country's European partners was the precondition for job growth. The pro-austerity consensus was formalized by the two-party pact reached in Wassenaar in 1982, which signaled the beginning of the Dutch trade unions' embrace of competitive neo-corporatism (Rhodes, 1998). As Blanchard (2000: 5) lucidly notes, 'Wassenaar did not happen until unemployment was high in the Netherlands, and it may not have happened otherwise'. On its own terms, the socioeconomic compromise reached in Wassenaar can be considered a success: between 1979 and 2008 the Netherlands registered exceptional levels of wage moderation (Huffschmid, 2005: 83; Eichengreen, 2007: 388). The flipside of this 'political exchange', which underpinned the unions' acceptance of wage cuts, consisted in a reduction of the taxes and contributions levied on gross salaries to finance social expenditure (IMF, 1997: 207). The government's restructuring of the AOW pension system, with the support of both the firms and the unions, offered a decisive contribution in this respect. On the revenue side, the tax levy remained at 10 per cent of the gross salary during the 1980s and first half of the 1990s. Given the impossibility of raising the levy, ensuring actuarial balance required a cutback of public pensions, which was achieved by de-indexing them from real wages (Van Amelsvoort, 1984: 97; Vording and Goudswaard, 1997: 41; Oorschot and Boos, 1999: 300; Kremers, 2002: 281). These measures combined allowed the Netherlands to achieve one of the lowest pension expenditure-to-GDP ratios in the developed capitalist world.

The second crucial factor which contributed to the lowering of labor costs was the reduction of the contributions levied to finance the private pension system. This was made possible by the significant increase in real interest rates brought about by the post-1979 'monetarist experiment'. Pension funds benefited enormously from the constant increase in the price of money, with the return on public investment jumping to almost 8 per cent during the early 1980s (OECD, 1985: 64; OECD, 1987: 10; Keuzenkamp and Van der Ploeg, 1991: 232). This allowed Dutch pension funds to accumulate consistent financial surpluses, which were then used to reduce the tax levy on firms (Davis, 1992: 17), which went from 11 per cent in 1980 to just above 7 per cent in 1989.[14]

Finally, the purchasing of large quantities of government securities by the Dutch pension funds – particularly by the major public sector fund, Algemeen Burgerlijk Pensioenfonds (ABP) – at below market interest rates allowed the government to reduce its interest expenditure to levels well below those of other European economies (OECD, 1986: 39; Goudswaard, 1990: 279; Kuipers, 1992: 165-166; Van Zanden and Luiten, 1998: 174). In other words, the extension of loans to the public sector by pension funds contributed to reducing the share of added value levied on firms to finance government expenditure (Keuzenkamp e Van der Ploeg, 1991: 228).

All in all, the measures described above led to a drastic reduction of labor costs, such that in 1996 the tax wedge in the Netherlands was lower than that of most European countries (IMF, 1999: 18). The lowering of the taxes levied for social expenditure appeared to be a positive-sum game: while firms benefited from lowering labor costs, the purchasing power of workers was not excessively penalized by

the policies of wage moderation, since their net wage remained stable (Goudswaard, 1990: 272; Asscher-Vonk et al., 2000: 154). This is why, after years of slow growth and high tax burdens, the lowering of pension contributions was met with little resistance by social partners. From the start of the following decade, the slashing of labor costs and public expenditure would transform the Netherlands into one of the most 'virtuous' economies of the Eurozone (Knot, 1998)[15]. During the second half of the 1990s, its 10-year government bond yields plummeted to one of the lowest levels in Europe (Faini 2006). This had a deep impact on the pension funds. On one hand, the falling interest rates threatened the financial sustainability of the funds, had these continued to purchase large quantities of sovereign debt. On the other, assuming equal performance, the funds' insistence on the purchase of government securities increased the tax levy on firms, both public and private, as well as workers, creating a potential conflict vis-à-vis the aim of economic and job growth (Mensonides, 1998: 285). Firms and unions were well aware of this, which led them to push for a change of policy on the pension funds' behalf (SER, 1996: 13).

Thus, at the start of the 1990s, a wide social coalition emerged favoring a decisive change in the funds' investment strategies (Reisen, 1997: 12; Bikker e Vlaar, 2006: 2; Blom, 2006). These responded by heavily disinvesting from public assets, and moving towards shares (IMF, 2003: 4; Bikker et al., 2010; Rubbaniy et al., 2011). This made the portfolio composition of Dutch institutional investors jointly managed by firms and unions increasingly similar to that of the pension funds found in liberal countries (Davis, 2004).

5.1 Into the hidden abode of Dutch occupational pension funds

The mere acquisition of shares does not say much about the pension funds' contribution to capital accumulation. To corroborate whether unions have been able to direct the savings of their members towards productive investments or not, we have to take a specific look at the pension funds' asset allocation. Before delving into the 'hidden abode' of the Dutch pension funds' books[16], however, it is necessary to understand whether Dutch firms really needed external saving pools to finance their investments. In this regard, it must be noted that the wage moderation pact reached in the Wassenaar Agreement did not stimulate firms to increase their level of domestic investment. This is coherent with the classical-Schumpeterian hypothesis presented in the first part of this article, and confirms that wage moderation has dampened the Dutch firms' incentive to invest in technological innovation over the past thirty years (Kleinknecht, 1996; Scharpf and Schmidt, 2000: 368; Kusters and Verbruggen, 2001: 37; Kleinknecht and Naastepad, 2005; Crespi and Pianta, 2008; Storm and Naastepad, 2012: 2-4; Broer, 2010; Hein and Tarassow, 2010).

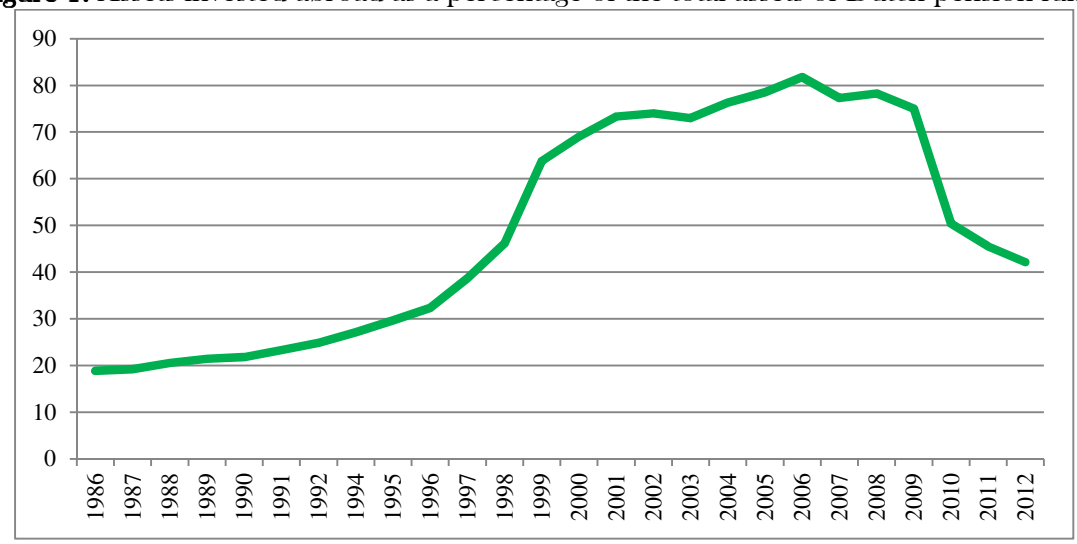
From as early as 1993 onwards, the investment slump was accompanied by a substantial increase in the savings of Dutch firms,[17] which moved from a deficit position to a surplus one (OECD, 1986: 39; Doeswijk et al., 2006; Andrè et al., 2007: 19; European Commission, 2013: 16). The higher profits hoarded by firms, instead of being productively employed domestically, were used to copiously finance foreign investments (Van Ark and De Haan, 1996: 14; Hulsink and Schenk, 1998; Van Zanden and Luiten, 1998: 174; Van Hoesel and Narula, 1999; Garrett, 2000: 979; Kunè, 2001: 424; Sluyterman, 2005: 222-241).[18] Thus, most of the innovation was pursued abroad, while domestic production became increasingly characterized by low value-added activities (Van Tulder, 1999: 297). This caused a dramatic stagnation of internal productivity, which has fallen to half of the EU average since the Wassenaar Agreement (Huffschmid, 2005: 87; Naastepad, 2006: 409; Palazuelos and Fernández, 2009).

5.1.1 Foreign investment

The polarization of the Dutch productive structure would have profound implications on the pension funds' investment strategies. The low profitability that characterizes investment in low capital-intensive projects, combined with the ample pool of savings available to multinational firms, made the investment

of pensions savings in the domestic economy particularly unprofitable (Keuzeokamp and Van der Ploeg, 1991: 247; DNB, 2009: 17; Egan, 2013). This hypothesis is confirmed by the dynamic of foreign investment by occupational pension funds (Figure 1). In just five years, from 1995 to 1999, the share of assets invested abroad increased to 69 per cent of the funds' entire portfolio. As mentioned already, the preference for foreign investment was reinforced by the steady decline of interest rates on government bonds. More precisely, anticipating the introduction of EMU, between 1998 and 2000 the Dutch occupational funds 'purchased government bonds from countries, such as Italy and Spain, where capital market rates remained relatively high until the introduction of the non-cash euro. The pension funds expected to realize price gains as capital market rates converged to lower levels' (DNB, 2009: 18). Finally, a significant portion of savings were invested in the U.S. stock market (Kakes and Broeders, 2006: 52; Boonstra, 2007: 234).

Figure 1. Assets invested abroad as a percentage of the total assets of Dutch pension funds



Source: DNB Statistical Database

5.1.2 Domestic investment: the contribution of pension saving to capital accumulation

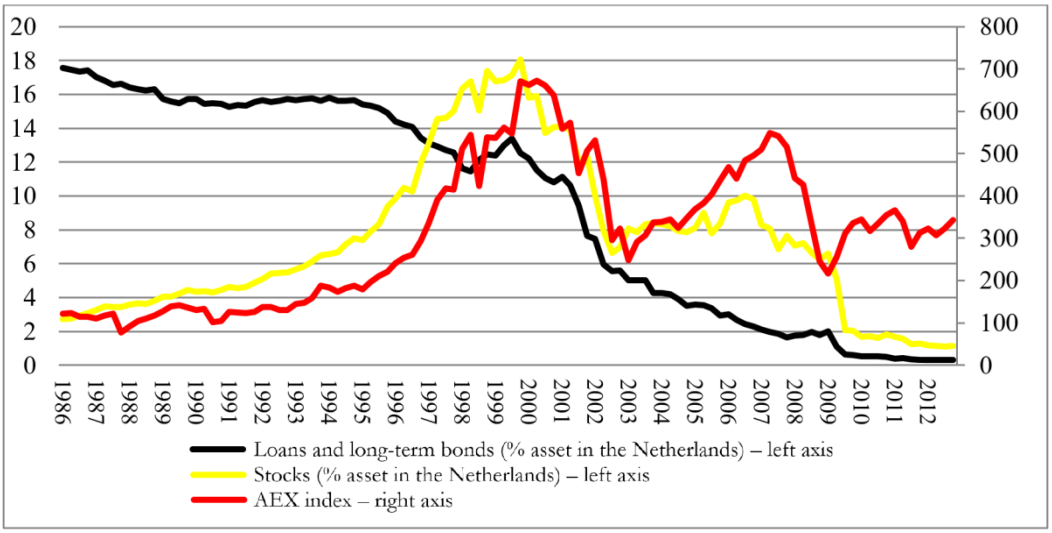
Another way of looking at the pension funds' contribution to the country's capital accumulation is to focus on the assets invested within the Netherlands, specifically in financial and non-financial firms. Logic suggests that only investment in the latter sector directly benefits productive activity.[19] Domestic investment by pension funds in the country's corporate sector declined from around 20 per cent of total investment to 6.2 per cent in 2007, and collapsed to just over 1 per cent following the stock market collapse of 2008.

Despite the declining trend, towards the end of the 1990s the pension funds appear to develop a growing interest in firms operating within the Netherlands. To gain a deeper understanding of this development, we must distinguish between short-term and long-term investment by pension funds in the corporate sector, since only in the latter case can the productive units muster, without too many risks, the funds necessary to finance 'real' investments, which are long term by definition. In this regard, we will assume as the indicator of long-term investment strategies the share of loans and bonds with maturity above one year purchased from domestic firms. Unlike purely financial investments, savings allocated to the real economy have a longer life span because it takes time to reorganize a firm's productive processes, to introduce innovative technologies or simply to increase the value of productive capital. In other words, the fact that dividends and interests stop determining the price of bonds can be seen as an indicator of the speculative behavior of investors, whose search for returns comes to depend less on yields – which in

turn depend on the firm's profitability – and more on the capital gains resulting from the appreciation of stocks, which isn't necessarily correlated to an increase in the firm's productive capacity.

Figure 2 shows the share of investment in the domestic corporate sector of the funds' total domestic investment. The black line represents long-term investment. The yellow line represents short-term investment in stocks. The red line represents the AEX, which measures the performance of the Amsterdam stock market.

Figure 2. Investment by pension funds in firms operating in the Netherlands over total domestic investment (%)



Source: DNB statistical database.

The first consideration that can be drawn is that, from the second half of the 1980s onwards, long-term investment in firms began to steadily decline, particularly after 1994, and then plummeted at the start of the new millennium, settling just above 0.5 per cent in 2012. The pensions funds' lack of interest in real investment in the country's firms reflects the productive trajectory of the Dutch economy from the 1980s onwards. While large and highly internationalized firms could count on retained earnings to finance their investments (Fase, 2001; Amable, 2004: 27; De Bie and De Haan, 2007), smaller and less productive ones did not represent a viable alternative for the funds' long-term investment strategies.

Particularly noteworthy, however, is the striking discrepancy between long-term and stock market investment from 1992-3 onwards. The sudden oscillations in the share of stocks purchased by pension funds raise a crucial point, which concerns the role of Dutch pension funds in the country's capital accumulation through their financing of the firms' risk capital. As the figure shows, the share of stocks held in the funds' portfolio closely parallels the Dutch stock market developments. From 1993 onwards, short-term investments started skyrocketing, along with the AEX. The bursting of the 2000 financial bubble then brought about an abrupt change of course, to the point that in less than three years, from the fourth quarter of 1999 to the third quarter of 2002, the share of stocks issued by Dutch firms held in the funds' 'internal' portfolio plummeted by more than 60 per cent, while their monetary value fell by more than 75 per cent over the same period. After a temporary freeze, this dynamic repeated itself just a few years later, to the point that in 2010 the share of stocks came close of that of long-term investment – 1.5 per cent.

The growing importance of equity investment among pension funds would thus appear to be caused by the prospect of high returns offered by capital gains resulting from the appreciation of the shares issued by firms. An important factor of such appreciation resides in the purchase of their own shares by the firms themselves, in order to obtain the necessary leverage to increase their participation in other

firms (Alessie et al., 2002: 22; Von Eije and Megginson, 2008: 357; De Jong et al., 2010). Even though it is not possible to establish a causal relationship between stock price appreciation and demand for stocks by pension funds, it would appear that these have exploited the speculative euphoria that characterized Western economies, including the Dutch one, at the end of the 1990s and during the 2003-8 period.

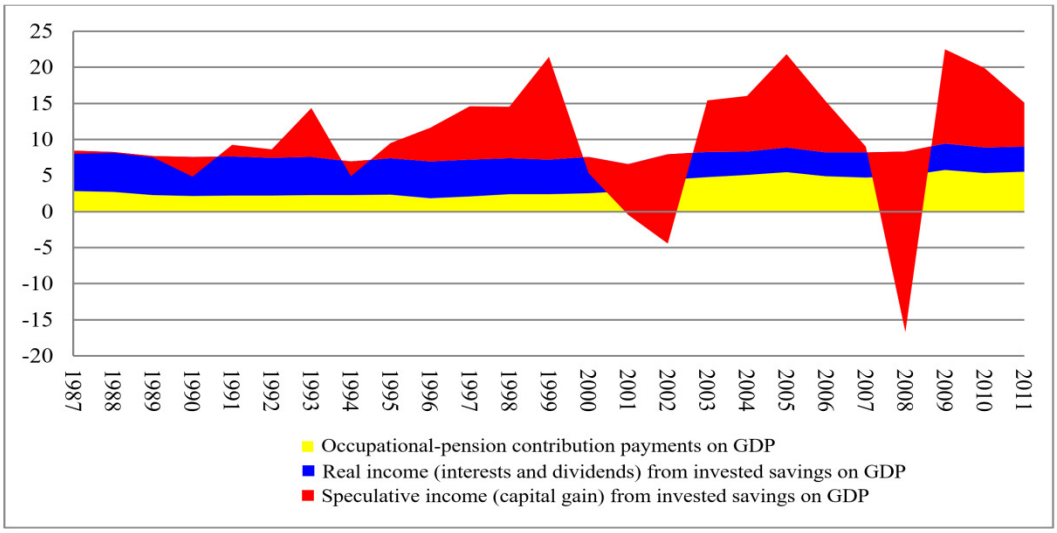
5.1.3 Real estate investment and household indebtedness

The share of pension fund assets invested in the financial sector registered a massive surge in the second half of the 1990s, almost reaching 80 per cent of the domestic portfolio in 2007. This development went hand in hand with the process of mortgage securitization that became increasingly common in the Netherlands from the mid-1990s onwards (Aalbers et al., 2011). For the occupational funds, eager to diversify their portfolio in favor of low-risk instruments, mortgage-backed securities (MBSs) represented the right product at the right time: the low yields offered by the public sector and domestic firms pushed the Dutch funds to invest massively in the MBS market, to the point that at the end of the 1990s they provided almost 20 per cent of the available credit on the housing market (Van Dijkhuizen, 2005: 6).[20] This huge injection of liquidity into the Dutch housing market caused an increase in housing prices unparalleled throughout the West (Aalbers, 2009: 391-393), offering households 'opportunities for mortgage equity withdrawal [...]. Homeowners exploited the rising free mortgageable values, and consumption growth far exceeded growth in disposable incomes in this period' (Danmarks Nationalbank, 2006: 38-9). In other words, consumption reached exceptionally high levels despite wages having stagnated for over two decades (Statistics Netherlands, 1999; EBC, 2001: 11; Storm and Naastepad, 2003: 146; Van Els et al., 2003; Allen et al., 2004: 504; Debelle, 2004: 34; IMF, 2005; Van Gent, 2010: 736). This hugely increased the mortgage indebtedness of Dutch families, making them the most indebted in the world at the beginning of the new millennium (Economist, 2002: 67; Allen et al., 2004: 503; Vandevyvere and Zenthöfer, 2012: 19; European Commission, 2013: 29).

5.2 Speculative investments and wage moderation

As we saw in the preceding sections, investment by Dutch pension funds in the domestic economy was increasingly geared towards attaining capital gains from the appreciation of securitized mortgage bonds and shares issued by non-financial firms. Figure 3 shows the development of the income accrued by pension funds in the form of contributions, interests/dividends and capital gains. Income is calculated as a percentage of GDP, to underscore the weight of pension fund investment on the country's economy. k

Figure 3. Direct and indirect income of Dutch pension funds on GDP, 1987-2011 (%)



Source: DNB Statistical Database.

The figure reveals two clear tendencies. On one hand, revenues from stock price speculation exploded between 1993 and 1999, jumping from 5 to more than 20 per cent of GDP. The search for pure returns is even more evident if we focus on the period of financial exhuberance that followed the bursting of the dot-com bubble at the start of the millenium. On the other, the figure underscores how the growth of the pension funds' assets was accompanied by a significant risk exposure. Over the 1990-2010 period we witnessed four stock market crashes, with a cumulative unweighted impact on GDP of 52 per cent.

Nonetheless, income from speculative investments helped to contain the tax levy on firms. Despite a marked reduction in the governent bonds' interest rates from the 1990s onwards, and a failure on behalf of firms to attracts long-term investors through productivity increases, tax contributions remained below 9 per cent until 2000 – the same value as 1986. This is principally explained by the massive growth of the funds' indirect income as a result of the bullish stock market dynamics, which allowed the pension funds to accumulate consistent financial surpluses. These were then used by the business associations and unions not only to keep tax levies lower than the ones needed to maintain the actuarial soundness of the occupational pensions schemes (Westerhout et al., 2004), but also to finance "contribution holidays" which indeed became a common phenomenon throughout the late 1990s. In some cases, social partners 'have permitted pension fund windfalls generated in times of economic prosperity to be fed back into corporate coffers' (Eurofound, 2003).[21] But if on one hand the high revenues guaranteed by speculative investment allowed firms to prolong the strategy of wage moderation, on the other they preserved the consumption capacity of the working class (active and inactive), thus securing its consent.

6. Summary and conclusion

This study has tried to analyze the functioning of the impersonal powers of the market through the prism of Dutch pension funds in the age of competitive austerity, in which exceptionally tight budgetary policies were accompanied by the use of pension savings for purely speculative purposes, as well as for export. A close analysis of the investment flows contradicts the thesis advanced by reformist social scientists, according to which the presence of unions within occupational pension funds makes these less obsessed with short-term returns, unlike their Anglo-Saxon counterparts. As argued in part 4 of this article, the institutionalists' inability to correctly understand the role played by unions within pension funds resides in their methodological individualism, which reduces the analysis of social security institutions to their ability to solve market failures. In this framework, the market is seen as a neutral place – a playing field in which the various players are potentially free to enact whatever strategy they deem more advantageous. The study of the Dutch occupational funds, instead, confirms our initial hypothesis – i.e., that the market is a place of impersonal power relations, which create a coercive structure of decision-making systems, incessantly reproducing asymmetric economic links between agents.

Such impersonal power, guided by the competitive imperative of firms, pushes the unions involved in the regulation of pension funds to adopt strategies aimed at maximizing their investments' returns to reduce the non-wage labor costs of firms. This reduction, in turn, creates the conditions for striking a social compromise between 'social partners', in which the lower tax levies made possible by the high returns offered by the funds' speculative investments allow workers to enjoy stable net wages – even in the context of wage moderation – and pensioners to enjoy high social security provisions. In this light, the propensity towards short-term investment reflects its capacity to accommodate the competitive needs of firms without prejudicing the social consensus for the market system.

This tendency is observable in the Dutch case, where the rigid control of wages in place since the 1980s freed firms from the need for external financing, allowing them to invest their surpluses abroad, while the smaller productive units, thanks to the availability of cheap labour, progressively reduced their

investments in the country. Even though the meek productive gains inherent in this dynamic delivered positive effects in terms of job growth ('the Dutch miracle'), the subsequent loss of innovative dynamism had the paradoxical effects of further shunning the pension funds away from the country's internal productive structure, unable to offer palatable returns. The lion's share of the pension savings invested in the domestic economy were thus directed towards speculative-real estate investments. The financialization of social security was nonetheless accompanied by extremely consensual industrial relations, since the high yields delivered by speculative investments during the phase of financial euphoria that continued practically uninterrupted from the mid-1990s to 2007 allowed firms to reduce their tax contributions, thus preserving the net wages of the labor force and guaranteeing generous social security provision within a framework of social peace. This was further supported by the funds' massive investment in the housing market, which decisively boosted real estate prices in the Netherlands from the mid-1990s onwards. By extracting wealth from their households, Dutch workers were able to enjoy consumption levels that would have otherwise been incompatible with the policies of wage austerity pursued from the 1980s onwards.

In more general terms, we can conclude that the 'capitalization' of a social right such as social security reinforces its subjugation to the impersonal laws of the market. While under pay-as-you-go public schemes social provisions are the result of a political mediation between producers, under capitalized schemes the revenues generated on capital markets subordinate social security provisions, present and future, to 'impersonal' decisions, mostly financial in nature. In this context, 'the certainty, guaranteed by the state, of enjoying a certain financial security at retirement is therefore displaced towards the sphere of the market economy. Henceforth it is the market, with its ups and downs, that guarantees future income' (Santiso, 2000: 235). The growing dependency of pensions on the cyclical nature of the stock markets changes the unions' preferences. As Hodgson (2006: 7) notes, the economic-institutional structure imposes a social coherence on the activities of the unions through the continuous production and reproduction of social conventions and habits of thoughts, creating 'strong mechanisms of conformism and normative agreement'. Financial markets discipline the behavior of the agents that operate within it, approximating a 'bed of Procrustes' that invites the agents to conform to its logic, just like Procrustes stretched people or cut off their limbs, so as to force them to fit the size of an iron bed. The normalization of union-firm relations on the basis of profit maximization does not impose disciplinary roles, but rather tests and reinforces the agents' discipline, spurring them to conform to the efficiency-based imperatives of the market, in order to improve their efficiency.

In the age of competitive austerity, workers' organizations that refuse to accommodate markets are destined to be punished not only by the firms' 'power-to-disinvest', but also by the union's members, whose consumption comes increasingly to depend on the pension funds' ability to attain high revenues, predominantly through speculative investment. Paradoxically, it was one of the forefathers of institutionalism, Max Weber (1921: 636-637), that reminded us that the market is 'the most impersonal relationship of practical life into which humans can enter with one another', and that 'such absolute depersonalization is contrary to all the elementary forms of human relationship'. Unfortunately, it would appear that this warning has been forgotten by his followers.

Notes

[1] The dominant position of firms is well understood even by non-Marxist scholars such as Lindblom (1977), who notes that certain groups may exercise their veto in certain areas, but business enjoys a structurally privileged position.

[2] 'In Marxian language, your class position depends on whether you own and gain your income from capital or whether your only property is your laboring capacity' (Caporaso and Levine, 1992: 26).

[3] As Pitelis (2004: 44) notes: 'a capitalist who fails to compete [...] is sooner or later a non-capitalist. The survival of those left depends upon their ability to compete successfully'.

[4] For economists working in the classical tradition, the motor of investment does not reside in aggregate saving but in the saving of the capitalist class (Shaikh, 1989; Foley and Michl, 1999; Moudud and Zacharias, 2000). The reason for this assumption is that, in line with classical thought, workers as a class do not save at all, so that all saving originates in profit incomes (Michl, 2002: 219-220). In this framework, the profits of capitalists are the chief source of savings which will be eventually translated into investment in new capital goods that add to the productive capacity of the economy, thus increasing the future level of output. 'The more profit placed into the capitalist's hands, the greater the social saving, the greater the accumulation of capital' (Caporaso and Levine, 1992: 117).

[5] As Hyman and Schuller (1984: 297) correctly predicted at the dawn of the occupation pension funds, 'if pensions represent a wage, albeit deferred, in organizations where unions negotiate over wages we might expect the emergence of pressures to include pensions as a formally negotiable item'.

[6] According to Schumpeter's hypothesis (1942), wage pressure by union push the firm to adopt *labor-saving* technologies, i.e., to substitute old (and more labor-intensive) means of production with more modern and productive machinery. This activates a process of 'creative destruction' through which innovative firms push more conservative ones to the margins of the market.

[7] Investment in developing countries is more exposed to instability and thus to risks. As Stiglitz (2005) notes, in periphery markets 'returns will be higher only because risk is higher. There is still no free lunch in economics'.

[8] It is alleged that that the pay-to-go systems of Western countries, if not reformed, will face a scarcity of labor that will render them financially unsustainable. The proposed solution, often implicit or tempered by more neutral terms such as 'reform' or 'adjustment', is the adoption of private capitalized pension systems, which would ensures that 'the maintenance of income upon retirement would be less vulnerable to demographic imbalances' (Ferrera, 2007: 359). It is not possible to adequately deal with the issue of population growth within the confines of this paper. Suffice to note that claims that pension reform is inevitable due to demographic trends assume the neoclassical argument that growth is inevitably slowed down by lack of labor, since this is seen as an exogenous variable of the economic system. The classical school of political economy, on the other hand, reverses the relationship between population and growth, in the sense that, contrary to the claims made by neoclassical thinkers, it is the dynamic of capital accumulation that determines the demographic trends (Mullan, 2000; Foley, 2010; Foley and Michl, 2010).

[9] Although they do not explicitly deal with financial markets, they discard the efficient-markets hypothesis (Fama, 1970), which presents financial markets as a source of competitive advantage that simply serves the needs of nonfinancial firms.

[10] The speculative process is clearly explained by Hilferding (1910/1981: 135-36): 'Speculation consists in taking advantage of price changes, though not of changes in commodity prices [...]. The speculator as such does not derive his gain from the increase in profit. He does not hold securities in the hope of sharing in the higher profit – as an investor does – but seeks to gain by buying and selling his securities. His gain does not arise from a share in the profit, for he gains also from declining profits, but from price changes, which means that at a particular time he can buy securities more cheaply than he sold them, or sell them more dearly than he bought them. If all speculators played the same side of the market [...] there would not be any speculative gains at all. These arise only because contradictory valuations are made, only one of which can turn out to be correct. The different valuations made by buyers and sellers, at a particular time, result in losses for some speculators and gains for others'.

[11] This position is assumed also by apparently radical studies, according to which the main determinants that shape business and labor's preferences over investment allocation reside in exogenous conditions such as the maturity of the obligations and the liquidity needs of the pension plan. McCarthy et. al. (2016: 754) argue that 'the preferences over (im)patience are contingent upon more dynamic historical factors [...]. [L]abor will likely prefer more [...] impatience when such investment is perceived to provide higher returns than other types of investment at times when funding needs are high'. Similarly, Engelen (2003: 1366) points out that 'as soon as pension funds mature, their need to push the envelope of existing investment norms and practices grows, resulting in increasingly speculative behavior and a frantic search for financial innovations'.

[12] Between 1970 and 1981, the Netherlands registered among the lowest levels of GDP and job growth in Western Europe (Ho Park, 2013: 654).

[13] In the Netherlands, the investment collapse that occurred over the 1980-1 period was the most drastic fall recorded in developed countries (OECD, 1983: 21).

[14] The Dutch government played a crucial role in sustaining the institutional architecture based upon the reduction of pension contributions. During the mid-1980s, the second Lubbers governments threatened to increase the tax levy on the funds' surplus in order to convince all the social partners involved in the funds' administration to use their reserves to reduce the firms' pre-tax pension contributions.
[15] In 2000, the Netherlands' fiscal balance registered a 2 per cent surplus, even higher than Germany's, stationary at 1.2 per cent.
[16] The data relative to the Dutch pension funds' portfolio composition are downloadable from the Statistics Netherlands – CBS StatLine online database; as well as from the website of the Dutch central bank, in the Excel table 8.1-8.16.
[17] In aggregate terms, the discrepancy between saving and investment delivered a positive balance of payments. Between 1995 and 2010, the country's balance of payments surpluses, at more than 5 per cent of GDP, were the highest in Europe – even higher than those of registered in the cradle of mercantilism, Germany.
[18] Over the 1980-2000 period, the FDI-to-GDP ration increased from 26 to 83 per cent, turning the Netherlands into the country with the highest FDI in the world.
[19] As we will see in the next section, even investment in the financial sector produces real effects.
[20] Beginning in 1996, ABP, recently privatized by the government with the support of all social partners, and PGGM (the health system and social services' workers' pension fund), were among the main players on the mortgage market (Veenman, 1999; Euroweek, 2000; DNB, 2002: 17; EuroProperty, 2004: 26; Rabobank Group, 2004: 29; Bos and Slager, 2008).
[21] A study by U.S. investment bank Merrill Lynch revealed that the lion's share of the financial surpluses of the major firms' funds were flowing back into the firms' coffers, while the remaining share was used to reduce the firms' pension contributions.

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