
Retirement security is fundamentally dependent on steady and equitable economic growth. From the creation of Social Security in 1935 to the passage of Medicare and Medicaid legislation in 1965 and the enormous increase of private pension plans supported by tax subsidies in the 1940s and 1950s, retirement security was based on the broad-based prosperity of Western capitalism's golden era. Between the end of World War II (WWII) and until the 1970s, Western economies grew at unprecedented rates as European nations recovered from the devastation of the war and the United States benefited from its enormous political and economic power in the post-war period. The economies of these countries were qualitatively different from those of the pre-war era, especially the U.S. economy. Franklin Roosevelt's New Deal initiatives— including big tax increases for the wealthy (from 24% in 1936 to 79% by 1945); regulation of the financial sector; support for labor unions, whose membership tripled during the 1930s; higher wages for low-income earners; and increased social expenditures for programs like Social Security—qualitatively changed the U.S. economy. Retirement security in the form of public and private pensions and health insurance became one of the pillars of this new economy of managed capitalism.

The managed capitalism of the post-war period was greatly influenced by the economic theory of John Maynard Keynes, the success of the state in directing the economy during WWII, and the widespread fear that the Great Depression of the 1930s would re-emerge with the return to normal, free-market capitalism. Most of the New Deal policies, including labor protections, financial regulations, infrastructure development, Social Security, and unemployment compensation were retained and, along with later initiatives like the GI Bill and tax-subsidized private pensions and health care insurance, became the framework for the mixed economy of managed capitalism featuring a prominent role for the public sector. This new economic model generated strong economic growth for over 25 years with an annual average growth rate of almost 4 percent. This growth was equitably distributed as wages rose by over 100%, wealth inequality declined steadily, financial scandals became relatively rare, and retirement security based on Social Security, defined benefit pensions, and Medicare, was extended to over 90% of the working population. Strong growth and increasing economic security made the mixed model of managed capitalism the "There Is No Alternative" (TINA) of its time.

Managed capitalism, however, began to unravel in the mid-1970s, as the oil shock (shortages) of 1973 began to ripple through the economy causing serious inflation, a squeeze on profits, and slow growth or what became known as stagflation. According to conventional wisdom, these objective forces were evidence of the inevitable failure of managed capitalism and its constraints on the efficient operation of the free market.

The Great Reversal

For Robert Kuttner (The Squandering of America) and Paul Krugman (The Conscience of a Liberal), however, these developments in the 1970s did not constitute an objective necessity for a return to pre-New Deal economics, but were rather an opportunity for a political initiative by the corporate elite to limit the power of labor unions, reduce regulation, cut taxes and public spending, and expand privatization of public programs. This great reversal was as much a political response to economic conditions of the 1970s as were the New Deal initiatives of the 1930s and the managed capitalism of the post-war era. Corporate elites, the Washington lobbyists, and think tanks have been able to convince much of the public, an acquiescent media, and many policy makers that politics is largely irrelevant in addressing the increasingly complex challenges of the modern economy, which is best left to the administrative competencies of corporate managers, financial engineers, and their supporting cast of economists like Milton Friedman and Alan Greenspan. This carefully orchestrated depoliticization of economic policy has occurred with a substantial measure of bi-partisan support. Kuttner and Krugman both point to the relatively conservative policies of the Carter and Clinton Administrations, the emergence of the Democratic Leadership Council in the 1980s, and the continuing influence of the Clinton era focus on deficit reduction, excessive public expenditures—especially in the entitlement programs—and a willingness among Democratic policy makers to support deregulation.
This politically-driven shift from managed to un fettered capitalism has failed to restore the growth rates of the 1946–1972 period. It has, however, achieved the essential purpose of the great reversal, which is to facilitate the accumulation of concentrated wealth. Income and wealth inequality accelerated sharply after 1980, except for a brief period between 1998 and 2001, and is now greater than any at any time since 1929. The comparatively slower growth of the last 25 years has gone increasingly to the top 10% of income earners with the greatest gains in income and wealth taking place for the top 1%. As Kuttner notes, most male workers have not received a “real” wage increase since 1975 and now earn 13% less than they did 30 years ago, even though average educational attainment increased steadily during this period. These wage losses have occurred at the same time as cost-of-living expenses, especially health insurance, education, and housing costs, rose and savings and retirement benefits declined. These trends have eroded the prospects of the middle class and widened the gap between the wealthiest and everybody else.

These changes are not fundamentally a function of inevitable economic developments such as technological advances, an increasing demand for educational attainment, and globalization, which has stripped nation states of their capacity to protect their citizens. Rapid technological changes, the creative destruction of modern capitalism, and globalization have been intermittent features of capitalist economics for over a century. The major differences between the last 25 years and the previous periods of extensive technological innovation and increasing trade and foreign investment are the precipitous decline of labor unions since the mid-1970s; the erosion of the moral culture that constrained management compensation; the dismantling of the regulatory infrastructure; and, the elite views propagated by the corporate media that politics could no longer be expected to resist any of these trends effectively and restore the balance of power between workers and corporate management. A clear sign of how much power has shifted to the corporate side is that managers and shareholders are now able to take over 70% of the gains from productivity increases compared to under 30% in the 1960s when wages and benefits were still increasing at rates well above inflation, taxes on the highest incomes were at 75%, and financial speculation was restrained by competent regulation. And now workers and retirees are supposed to believe the “merchants of doom” (Schulz and Binstock, 2008) who proclaim that Social Security and Medicare represent the biggest threat to the economy.

**Deregulation and the Erosion of Financial Accountability**

Kuttner, Krugman, and Robin Blackburn—in his most recent book, Age Shock: How Finance is Fooling Us—provide in-depth descriptions of changes in the financial sector, which is increasingly characterized by the profitable generation and manipulation of huge amounts of debt and the avoidance of taxes rather than the careful management of long-term investments. These changes are largely a product of deregulation since the late 1970s, which has led to rising speculative risk and a level of transactional complexity that makes the financial markets opaque to even the most seasoned participants.

According to these three authors, Wall Street now rules the U.S. economy as financialization eclipses production and the circulation of money in multiple forms, involving a wide and growing variety of debt instruments, has become the driving force in Western economies. The most profitable parts of major companies like General Electric and General Motors are their financial services divisions. Wall Street exercises financial and political power in a less restrained and accountable manner than at any time since the 1920s. This loss of accountability through deregulation has led to extraordinary levels of systemic corruption, most of which has gone uninvestigated or has been lightly sanctioned—unprecedented CEO compensation, regardless of performance; and even less self-regulation than occurred in the 1920s. Kuttner summarizes the failure of regulatory agency and the erosion of sound business practices over the last 25 years as follows:

In the 1980s and 1990s, however, every element of agency failed. Deregulation and lax enforcement of the regulations that remained eroded professional norms that had constrained rank opportunism. Supposedly independent auditors colluded with management to dress up corporate books. Ostensibly fair-minded securities analysts were turned into brokers who sold stocks looking to bring their firm underwriting business based on the success in running up a client company’s share price. Boards of directors that allegedly represented shareholders helped crony CEOs reap astronomical compensation packages largely disconnected from actual company performance. Corporate boards promoted stock options that gave executives incentives not to optimize true performance but to inflate the share price in the short run. Mutual funds, rather than serving as agents of investors, took high transaction fees and invariably voted their shares with management. Brokers and investment bankers helped themselves and their favorite clients to new stock issues (IPOs) at preferential prices not available to the public. Institutions of self-regulation, such as the National Association of Securities Dealers, the American Institute of Certified Public Accounts, and the New York Stock Exchange, went after minor infractions but not the deeper corruption. (pp. 74–75)

This system of unaccountable and often corrupt corporate practices has contributed greatly to the stunning divergence in income and wealth between workers and corporate managers and their professional enablers (lawyers and accountants) over the last 30 years. As the average worker’s wages stagnated after the early 1970s, CEO compensation increased over eightfold—from 40 to over 300 times the median worker wage between 1970 and 2003, when the median CEO pay was $13.2 million.
The perils of deregulated finance began to receive some media and congressional attention with the collapse of the IT bubble and the stock market, and scandal-ridden bankruptcies of such huge firms as Enron, World Com, and Tyco in 2001 and 2002, which destroyed the retirement investments of several thousand employees. But as Kuttner and Blackburn describe at length, the public policy response, primarily the Sarbanes-Oxley Act, has done relatively little to re-establish accountability and a soundly managed financial sector as demonstrated most recently by the collapse of the subprime mortgage market. The Sarbanes-Oxley Act requires more transparent reporting of corporate profits, assets, and liabilities, but it does not cover much of the financial sector, including hedge fund and mutual fund companies.

Hedge funds, whose role in the deregulated financial sector has increased enormously since the 1980s, are an especially important source of increasing risk in the U.S. economy. They leverage huge amounts of debt through the trading of derivatives and other exotic forms of unregulated financial instruments with little transparency and no assets-to-debt-ratio requirements which, in contrast, have been in place for banks with their federally-insured deposits since the 1930s. Even those regulatory provisions, however, were watered down with the repeal in 1998 of the Glass-Steagall Act, which required the separation of commercial and investment banking through deposit requirements. This was a major bipartisan-supported victory for the champions of deregulation. Hedge funds are at the heart of the current meltdown in the subprime mortgage market, although it is virtually impossible to determine either the full extent of the losses or the magnitude of future risks in the absence of regulated transparency.

Kuttner argues that hedge funds contribute more downside risk than real value to the productive economy and that they exist primarily to enrich fund managers who bear little risk themselves and whose incomes are taxed at the capital gains rate of 15% rather than the income tax rate of 35%. This tax gift has been supported by several Democratic policy makers, especially New York Senator Charles Shumer, who has received very large campaign donations from hedge fund managers.

Private equity firms have grown about as fast as hedge funds in recent years and were involved in over 2,000 buyouts valued at over $500 billion in 2006, or double the value of buyouts in 2005. Although private equity firms are supposed to operate more like investment banks and venture capitalists, with a focus on the generation of longer-term value, they have the same broad exemption from most regulatory requirements as hedge funds. For example, when a private equity firm purchases a public corporation, that company becomes exempt from the disclosures required by the Securities and Exchange Commission (SEC). Most private equity purchases are not long-term investments, but rather debt-leveraged buyouts designed for quick returns through high fees and fast turnarounds that often leave companies stripped of their assets and pension funds.

The rise of hedge funds and private equity firms has actually made the U.S. regulatory infrastructure weaker than it was prior to the crash of 2000–2002, which demonstrates Kuttner’s observation that our memory of lessons from the past is eroding at an accelerating rate: It took more than four decades for American capitalism to forget the lessons of the great crash of 1920 and begin repeating the same abuses. It took less than four years to forget the lessons of the crash of 2000. (p. 125)

The only way to contain this growing threat to the United States and international economies is:

... to change the current incentives that reward the short-term acquisition of sound corporations and allow middlemen to strip them of assets. Specifically, the interest on the borrowed money that underwrites leveraged buyouts should not be tax-deductible. Deal makers who take entire companies private only to take them public again in a short period of time should be subject to a windfall profits tax. New owners of a firm acquired mostly with borrowed money should be prohibited from voting themselves extraordinary dividends. There should be limits on the transactions fees paid middlemen. And, in the case of a company with assets over a set amount, say $50 million, exactly the same public disclosures should be required, whether the owners are the general shareholding public or private-equity firms and hedge funds. (Kuttner, p. 127)

The speculative excesses of hedge funds and private equity firms and the investment banks who give them loans is not the only financial-sector threat to the pension resources of workers and retirees. Mutual funds, which control a huge share of pension wealth, also threaten the retirement security of many people by charging excessive transaction costs and paying very high fees to fund managers. Kuttner states that according to a recent assessment by John Bogle, the investor-oriented founder of the Vanguard Fund, mutual funds have underperformed the stock market between 1985 and 2004 by an annual average of 3 percent, which has gone to fund managers in the form of fees. Bogle shows that $10,000 invested randomly in stocks in 1984 would have returned $109,800 by 2004, but only $62,900 if placed in the average mutual fund. Bogle observes that:

“The investor put up 100 percent of the capital and assumed 100 percent of the risk, but collected only 57 percent of the profit. The mutual fund management and distribution system put up zero capital and assumed zero percent of the risk, but collected 43 percent of the return” (Bogle, 2005). Timing can make that split even worse. During the boom and bust of 1997–2002, mutual fund managers collected $250 billion, while millions of investors suffered a net loss. (Kuttner, p. 138)

Bogle thinks the current abuse of mutual fund investors calls for a complete reconstruction of the U.S.
regulatory system, including strict limits on stock option compensation of CEOs who often back-date options to increase profits, empowering non-management directors, clarifying and prohibiting a broad range of conflicts of interest that have become common since 1980, and imposing caps on mutual fund fees.

The Federal Reserve, under former Chairman Alan Greenspan, played a major role in the emergence of the increasingly unregulated financial system by failing to contain financial bubble and help organize bailouts as necessary, and by refusing to regulate financial transactions such as those occurring in the subprime market. The low interest rates of the post-WW II era helped build a strong economy under managed, effectively-regulated capitalism. After 1980, low interest rates fueled speculative excess and financial engineering rather than promote growth of the real economy. Low interest rates now constitute an essential component part of the pattern that has emerged in the financial sector over the last three decades—a pattern of “... regulatory indulgence, speculative lending and financial engineering, collapse, and then government rescue, with debtors, taxpayers, or shareholders paying nearly all the price and speculators surviving to play again” (Kuttner, p. 156).

Bipartisan Dismantling of Managed Capitalism

Kuttner, Krugman and Blackburn agree that Democratic Party leaders have been complicit in the development of our out-of-control financial sector governed by speculation and greed and have done little to create a more balanced economy designed to benefit the longer term economic interests of workers and retirees. Instead, they have generally supported financial deregulation and a policy agenda that prioritizes federal budget deficit reduction, reduced federal expenditures, free trade agreements, very limited (if any) tax increases, resistance to increased social investments, and a relatively weak and inconsistent response to Republican and media hysteria over the entitlement programs.

Kuttner is a long-time critic of this policy agenda, which is often referred to as Rubiomics, the brand of economic policy associated with Robert Rubin, Bill Clinton’s Secretary of the Treasury. He provides considerable evidence that the economic growth of the 1990s was not a product of budget deficit reductions, cutbacks in federal spending, or trade agreements like NAFTA, but rather long-term increase in productivity that began in the 1980s and came to full fruition in the mid-to-late-1990s. Gains, however, from these productivity increases have gone largely to CEOs, fund managers, and large shareholders. Free trade agreements have led to reduced prices for some consumer items but have done little to improve the overall economic condition of U.S. workers and now threaten the overall economy as the U.S. slips deeper into debt owed to its trading partners, mainly Japan and China.

In describing the Democrats’ inadequate defenses of Social Security and Medicare, Kuttner notes that Clinton almost proposed a partial privatization of Social Security in 1998 but was distracted by the Lewinsky scandal. He also points out that the Democrats were unable to prevent the inclusion of several privatization provisions in the 2003 Medicare prescription drug legislation or to undo any of these provisions since regaining control of Congress in 2006. They were, however, able to blunt President Bush’s 2003 Social Security privatization effort with the help of a few Republicans, several advocacy organizations, and a public increasingly distrustful of the Bush Administration and mindful of the program’s great success in reducing poverty among the elderly and providing a foundation for retirement security. After Kuttner and Blackburn’s description of the machinations in the financial markets, one can only wonder what might become of Social Security if it were converted into private accounts.

Kuttner and Krugman argue strongly for a far more aggressive campaign to protect Medicare than the Democrats have so far been willing to wage. They describe how Medicare privatization, which is already well underway in the prescription drug and Medicare Advantage (managed care) programs, will drive up costs for both taxpayers and beneficiaries and diminish service coverage and access to care. The most effective way to protect Medicare and ensure its availability for the next generation of retirees is to create a universal health insurance program. The extension of Medicare to an increasingly larger share of the under-age-65 population may be the most efficient and politically feasible way of eventually achieving universal coverage. If this strategy or some strong version of it is not successfully adopted fairly soon, steadily growing health care costs will undermine Medicare for future beneficiary populations.

The potential success of a universal health care program built on the highly popular Medicare program is deeply threatening to the right, which fears that it could help establish the long-term dominance of a liberal Democratic party or the emergence of what Krugman wants, which is a new, New Deal. These appear to be rather far-fetched possibilities based on where things stand today. But Republican fears of the political consequences of a successful universal health care program were clearly evident in Republican strategist William Kristol’s advice to congressional Republicans that they do everything possible to defeat President Clinton’s health care reform proposal for the precise reason that if it passed, Democrats could solidify their hold on power for a generation. This same fear is at play in efforts by conservatives to privatize Medicare, which would eliminate the best existing framework for a universal health care program and to make health savings accounts (HSAs) a more broadly accepted alternative to universal health care. This agenda is also supported by corporate health care (drug and insurance/managed care companies) through large campaign donations and intense lobbying and advertising targeting both Democrats and Republicans.

Democrats enthralled by Rubiomics and the notion that some form(s) of privatization may be necessary to
curb entitlement spending are vulnerable to these corporate initiatives. According to Kuttner, Rubin himself is promoting a grand bargain designed to reduce budget deficits by trading reductions in Social Security and Medicare for a rollback in some of the recent tax cuts. The Republican refusal to restore revenues, however, has prevented discussions regarding a gradual bargain from moving forward at this point. This kind of plan to sacrifice Social Security and Medicare to budget austerity is not likely to gain the Democratic Party much new support from middle-class voters under increasing economic pressure.

The destructive practices permitted by the wholesale deregulation of the financial sector represent profound failures of neoliberal, laissez-faire economics. They also reflect the indifference of American corporate and political elites, including many Democratic leaders, to the interests of ordinary citizens for over two decades. The Republican embrace of neoliberal economics is perfectly consistent with the party’s long-standing position that markets work and governments don’t, except to the extent that they provide physical security at home and abroad and protect property. What is surprising is the extent to which the Democrats have also embraced neoliberalism in the form of Rubinomics. They’ve forgotten that markets, while engines of economic growth, do not on their own provide employment and retirement security, decent wages, education, health care, clean air and water, workplace safety, and maintain overall economic stability. All of these essential features of a reasonably functional modern society are largely products of an effective public sector capable of making social investments, taxing fairly, and regulating what Kuttner calls the market’s self-cannibalizing tendencies.

The Democrats’ embracing of the “new economy” ideology of the increasing irrelevance of a state sector sidelined by globalization and deregulated financial markets has given the right its greatest opportunity since the 1920s to shift taxes from the wealthy onto working people, cut social spending, and jeopardize the future of entitlement programs. These and other pocketbook issues have been largely depoliticized by the right’s success in labeling resistance to their agenda as class warfare and a threat to growth in the “new economy” (which actually bears a striking resemblance to the pre-Depression economy of the 1920s). The Democrats’ support for deregulation, reduced spending, deficit reduction, and other priorities of the Rubinomics agenda left them essentially without an alternative economic program that could be used to galvanize working- and middle-class opposition to this class warfare waged from the top. This may change during the 2008 presidential and congressional races, as economic issues become dominant under threat of recession, the collapse of the housing market bubble, and the growing perception that economic inequality has finally become too extreme.

Kuttner thinks the Democrats should use this opportunity to create a far more expansive policy agenda that clearly addresses the failures of neoliberalism and articulates proposals designed to reverse

the erosion of the middle class and ensure the survival of a hard-won retirement security system over the next several decades. Kuttner’s progressive agenda, like Krugman’s new, New Deal, would include universal health care, rigorous financial regulation, a more actively progressive trade policy, more legal protection of labor’s organizing efforts, and more social investments in affordable housing, education, and child care. These initiatives can be funded by undoing the biggest tax cuts of the last 7 years and maintaining budget deficits at a sustainable 1–2% of GDP rather than eliminating them, which would cause the loss of $100 billion or more that could be used to finance social investments.

Kuttner also supports the development of a publicly-administered pre-funded secondary pension program designed to compensate for the decline of private sector defined benefit plans and wide gaps in the emerging defined contribution plans. Kuttner thinks that this kind of agenda would be deeply appealing to a middle class increasingly subject to economic vulnerabilities that used to be limited to the working poor.

The restoration of a regulatory system designed to protect investors and nurture long-term growth, and a fiscal policy designed to pay for indispensable programs like Social Security, Medicare, and new social investments, are Kuttner’s major economic initiatives to strengthen the middle-class, reduce poverty, and ensure retirement security for future generations. These priorities, however, are closely associated with his critique of U.S. trade policy and his support for a more interventionist approach by the government to protecting U.S. economic interests in the global economy. Kuttner thinks that the United States has allowed too much of its productive capacity to be shifted offshore and justified by reference to the economic theory of comparative advantage. This corporate-oriented approach to trade has contributed substantially to lower wages, fewer benefits, and reduced savings for many workers who once had “good jobs.” These losses have not been offset by lower consumer prices. In combination with the growing balance of payment deficits (over $800 billion in 2007) and the stunning emergence of the United States as the world’s top debtor nation, they have greatly weakened the nation’s capacity to protect its own economic interests.

It is not at all clear what might happen if U.S. debt continues to climb and China continues to absorb U.S. manufacturing jobs. Kuttner’s concerns, however, do not seem unreasonable in the wake of serious meltdowns over the last ten years in Asia, Latin America, and Russia, where the flight of speculative capital led to economic collapse and steep increases in poverty.

The European and Asian Versions of Managed Capitalism

Kuttner contrasts the relatively unprotected U.S. economy with the state-led efforts by several Asian, European and, more recently, Latin American nations to reduce their exposure to speculative finance capital; to
maintain positive trade balances; to preserve sufficient fiscal capacity to pay for education, health services, infrastructure, and support retirement security; and, to fund economic development initiatives when adequate private capital is not available. This comparative analysis gives Kuttner the opportunity to demonstrate the wide variation in capitalist economies across the world, many of which resemble the managed capitalism of the U.S. post-WW II period more than the current neoliberal model of unregulated finance, free trade, privatization, and a passive public sector. He uses this opportunity to show that media accounts of Europe’s economic decline and the growing obsolescence of the European social model are greatly exaggerated or fundamentally false. He also shows that several Asian economies have been able to sustain high economic growth while violating most of the principles of neoliberal economics, including unfettered trade, unregulated finance, reduced taxes, and public spending.

In *Fossil Maiden*, Naomi Klein (2007) describes similar developments in Latin America since the collapse of Argentina’s economy in 2001 and the election of leftist political leaders in several countries. These elections reflect the widespread disillusionment with the support of neoliberal policies by the International Monetary Fund (IMF) and World Bank. Several Latin American nations are now developing mutually beneficial trade and investment relationships among themselves and with new partners like China, investing public revenues in health, education, public pension, and poverty reduction programs, regulating finance, and reducing their dependence on external loans. Less than 5% of the IMF debt portfolio is now in Latin American countries compared to over 80% ten years ago.

In his discussion of the European model of managed capitalism, which varies considerably across countries while remaining recognizably different from the U.S. neoliberal model, Kuttner shows that the economic performance of many European countries, especially in Scandinavia, compares favorably with the United States, even though they generally spend far more on social and income support programs (though not on health care), and have far higher levels of union membership. European rates of per capita productivity growth are comparable to the U.S. rate, while actually providing more high-wage jobs with good benefits. Europe’s most advanced welfare states in Scandinavia employed just 1% fewer of its male population aged 18 and older than the United States (76% vs. 77%) and 5% more of their female population (70.5% vs. 65.7%). Even France had a higher job growth rate between 1995 and 2003 than the U.S. (1.5% vs. 1.3% annual average). According to the OECD, labor unit costs in eight European countries declined more than in the U.S. throughout the 1990s, which reflects greater investment in the enhancement of workers’ skills and recognition of workers as “productive assets rather than expendable cogs” (Kuttner, p. 208). Overall, Europe’s economy performs as well as the U.S. economy, but the benefits of growth are shared far more equivalently. Moreover, most European countries maintain substantial trade surpluses; they are more competitive than the US in the global economy.

Europeans have far more equal incomes than Americans, receive universal health care with which they are highly satisfied, and universal child care. Pre-kindergarten is available in most countries, paid sick leave is widely available, and most workers have paid vacations of three to five weeks, which is why Europeans work 200 fewer hours a year than American workers. Furthermore, the European poverty rate is roughly half the U.S. rate (17%) as measured by those with incomes below 50% of the median. For Kuttner, the comparative success of the European economic model suggests two important lessons for those interested in a progressive political agenda for the United States.

First, a more social brand of capitalism can be at least as efficient as the American model, and a lot more equitable. And second, once that model reaches critical mass—when it benefits the broad working population and not just the elderly or the poor—it is too popular for politicians of any stripe to tamper with. Niew Gingrich well understood that lesson in 1993 when he made sure to block any form of government-organized universal health insurance, lest working-age voters harbor a friendly view of social investment and of liberal Democrats. (pp. 210–211)

Kuttner argues that unregulated financial capital, organized through hedge funds and private equity firms and operating freely across borders, threatens the social market economies of Europe and constitutes a huge obstacle to the United States regaining control of its financial fate in the global economy. Europe and the United States will both have to resist subordination to the logic of unregulated, unaccountable financial markets and their tendency to generate decreases in the rate of real investment as a percentage of cash flow, of research and development investments as a percentage of expenditures, and of capital stock as a share of gross profits. All of these standard operating procedures of finance capital threaten European economies as hedge funds and private equity extend their reach in Europe.

The other major alternative to the neoliberal U.S. economic model is East Asian capitalism, which is based on the kind of policies implemented by Japan over 40 years ago, though with greater continuing success than Japan has been able to manage since the collapse of its real estate and banking bubble over 15 years ago. This model, which Kuttner describes as fundamentally a kind of modern day mercantilism, has several features that distinguish it from neoliberal capitalism and, in many ways, contradicts the whole U.S. economic model. This East Asian model includes: extensive government subsidies and the provision of cheap capital to help producers (especially in advanced technologies) get a foothold and increase global market share; the pricing of exports below production costs, limiting foreign based producers to the roles of purchasers or partners; the creation of cartels to control markets and set prices; capture of intellectual
property; and domestic content requirements that require foreign producers to locate advanced production in the local country.

This aggressively state-led, neomercantilist model is largely responsible for countries like Korea, Taiwan and China, and other Asian countries becoming increasingly important in the international economy, often at the expense of the United States with its structural trade imbalance. China and Japan have built large trade surpluses with their strategic trade policies, while the U.S. trade imbalance increased by 17.5% in 2005 alone.

As other nations capture advantage in technology-intensive products, we are increasingly importing the most advanced products and exporting raw materials, or we are exporting materials for assembly and re-import. Given the trunculence with which the U.S. government advances its perceived national interest in military and geostategic areas, it seems almost bizarre that we should be so weak when it comes to advancing our trade interests. (Kuttner, p. 229)

A New Approach to Pension Funding

Robin Blackburn shares Kuttner’s and Krugman’s concerns about the neoliberal erosion of managed capitalism and the decline of the middle class. His focus, however, is more narrowly on the effects of financial deregulation, the decline of labor unions, tax cuts, and the impact of projected declines in future public revenues on retirement security, primarily private and public pensions. Blackburn has been writing about a kind of “grey capitalism” based on swelling private pension funds for several years. He has long made the case for more worker control of their own pension funds, greater accountability for pension fund managers, and the investment of a greater percentage of pension funds in socially beneficial enterprises and projects like infrastructure development.

In Age Shock, Blackburn provides the same kind of detailed critique of financial deregulation as Kuttner. He shows how it has distorted markets, enriched corporate management and some shareholders, and put large amounts of capital, including many pension funds, at far greater risk than is rational or prudent. He also describes how the unprecedented growth of older populations across the world will put increasing pressure on the funding of both private and public pensions and health care, including the largely ignored need for long-term care. He makes a compelling case for new regulatory interventions designed to ensure the solvency of pension funds over the next several decades. He also shows, however, that we will need more than an effective regulatory structure to provide pension coverage capable of maintaining an adequate standard of living among retirees for the next 50 plus years and preventing a large increase in poverty levels among them.

Private defined benefit (DB) pension plans have been declining for years and now cover less than 20% of workers in the United States. Furthermore, the Pension Benefit Guaranty Corporation (PBGC) will need far more funding to ensure the future availability of existing DB plans. Defined contribution (DC) plans have rapidly replaced DC plans, but these pre-funded plans, based on individual accounts (IRA and 401[k] and 403[b] plans) for which workers and retirees are fully responsible for investment decisions, cover less than half of current workers. Most workers are accumulating less in their accounts than would be required to support pension payments that, in combination with Social Security, could generate 70-80% of what they earn while working. This is one of the major reasons, along with rising health care costs, that Munnell, Golub-Sauss and Webb (2007) at the Boston College Center for Retirement Research have projected declining levels of retirement security for the baby boomers and younger workers, especially those born after 1960.

Blackburn also provides a very informative analysis of the emerging shortfalls in the public pensions of several European countries. These countries have increased the retirement age and reduced benefits for future retirees in order to control the increases in public spending caused by the already large proportions of their citizens who are elderly (EU average of 17% aged 65 and older in 2005)—proportions that will grow even larger by 2030 (EU average of 25%). In some countries these recently enacted policies will reduce pension payments by up to half of what they would have been under the old policies, which will lead to serious declines in retiree living standards and an increase in poverty among the old. This is a little surprising in light of how well most European countries have taken care of their older citizens for the last several decades and the politically popular benefits of the European social model as described by Kuttner. As Blackburn notes, however, most European countries, except in Scandinavia, are facing a fiscal crisis arising from population aging, relatively generous benefit levels, and the need to contain the share of productivity going to the elderly at the expense of younger populations over the next several decades. This does not mean, however, that the elderly populations of Europe and the United States will inevitably suffer a catastrophic decline in their standards of living and a steep increase in poverty levels, which would have damaging ripple effects on everyone, including the young.

In order to avoid these outcomes, Blackburn proposes a three-pronged program to support retirement security in the future. The first priority is to guarantee funding for “pay-as-you-go” (paygo) public pensions like Social Security that will be sufficient to cover 40-50% of the retiree’s last wage. In the United States, Social Security is equivalent to about 40 percent of wages, and European public pensions cover about 70-80% of wages. In the United States, private pensions now provide about 20-25% of what workers earned while working and private pensions for European workers provide much less.

Blackburn agrees with Kuttner that the political economies of Europe are far better designed to protect the living standards of the broad middle class, prevent
poverty, and resist the growth of inequality. These economic benefits are based on growth and productivity increases that compare favorably with trends in the United States over the last 30 years. He also thinks, however, that the huge projected growth in older persons as percentages of populations in Europe and the continuing challenge of achieving higher employment rates in several countries outside Scandinavia place serious restrictions on the fiscal capacity of states to continue funding generous public pensions on a pay-as-you-go basis.

Clearly, however, reductions in public pensions to levels less than 50% of retirees’ last wages, as scheduled to occur under law in several countries after 2030 or sooner, will undermine the living standards of future retirees and many of their families. The economic security of future retirees in the United States is similarly threatened by the rapid decline of DB pensions and the limited coverage and inadequate accumulation of funds in the DC plans that now dominate the U.S. private pension system. Blackburn proposes the development of prefunded universal secondary pensions administered by the public sector as the most efficient and even-handed strategy for addressing these threats to retirement security in the United States and Europe.

Blackburn does not suggest that these new publicly administered pensions be funded through an increase in current payroll taxes as Sweden does with its national secondary pension which was implemented in the 1990s. The payroll tax is a highly regressive method of generating revenues. It also adds to the cost of labor which hinders efforts to increase employment, especially of low-wage entry workers. Payroll taxes are not as big a barrier to employment and overall economic growth as many conservative economists claim, but they are already high and have grown considerably over the last several years. Instead of payroll taxes and other conventional revenue sources, Blackburn recommends the creation of a corporate share levy approach to funding the universal secondary pension at a level sufficient to keep retiree income at 70–80% of their wages while working and to cover cost-of-living adjustments. This strategy would be less of a constraint on economic growth than conventional payroll taxes. It would, however, require corporations to share more of their wealth with their employees and retirees by covering retirement costs they have increasingly shifted to workers over the last 25 years.

Progressive supporters of retirement security should recognize that current pension and health care programs will not be enough to fund an adequate standard of living in retirement for many in the future. Serious consideration should now be given to new, aggressively anti-neoliberal strategies like Blackburn’s share levy proposal. Under this proposal, corporations would be required to contribute shares equal to about 20% of their annual profits to a regionally organized common fund, which would be used to make socially responsible and productivity enhancing investments and generate revenues to fund a universal secondary pension for retirees. The share levy fund would be administered by boards that include ample and competent representation of workers and retirees who could be expected, with their own analysts and advisors, to help create a more transparent and better monitored regulatory system for the financial sector. This form of “grey capitalism” could become an important part of a larger, anti-neoliberal, post-Keynesian program for a new managed capitalism that protects the interests of workers and retirees and generates a higher rate of sustained growth than neoliberalism has been able to achieve since the 1970s.

Blackburn notes that corporations benefit enormously from a variety of social expenditures (education, health care, physical infrastructures), from the shift to DC pension plans, and from the dramatic decline in corporate taxes over the last 30 years. It is now time for them to begin contributing fairly to the overall well-being of the general population in ways that do not raise labor costs and dampen employment or allow increased taxes to be passed on to consumers. Blackburn’s share levy proposal runs directly counter to the neoliberal goal of wealth concentration by requiring corporations to give a portion of their profits to funds for secondary pensions and other socially oriented investments.

Conclusion

The collapse of the sub-prime mortgage market, increasing inequality, stagnant or declining wages and benefits, increasing debt levels, an increasing trade deficit, and the return of large federal budget deficits constitute serious threats to the future of retirement security. These trends and others associated with the neoliberal economic model are undermining the stability of pension funds and the capacity of workers to save for retirement and the fiscal resources necessary to preserve Social Security and Medicare.

The neoliberal model of tax cuts for the wealthy, deregulation, corporate-oriented trade agreements, and privatization of public services have also failed to protect the living standards of the middle class, reduce poverty, or to maintain the competitive position of the United States in the global economy. These long-term failures created the context for the sub-prime mortgage crisis, the rapid decline of the housing market, and slowing economic growth, which may become a full scale recession. The fact that these events are unfolding in a presidential election year would appear to create an extraordinary opportunity to exchange neoliberalism for policies based on Kuttner’s concept of managed capitalism, Krugman’s call for a new, New Deal, and Blackburn’s model of a progressive grey capitalism. It is not yet evident, however, that the Democrats, with their deep dependence on corporate donors, are willing to support these kinds of alternatives to the neoliberal economic agenda.

If the Democrats, however, regain the White House and retain control of Congress in 2008, their reluctance to challenge neoliberalism will be quickly tested by the costs of a military budget designed to maintain an aggressive neoconservative foreign policy in Iraq and
elsewhere, and the emerging struggle over the funding of the entitlement programs. Current tax policy probably precludes the long-term funding of even one, much less both, of these initiatives, as shown in recent works by Schulz and Binsack (2008) and Hacker (2006). The Democrats will not be able to ensure the future of Social Security, Medicare, and Medicaid by returning to the Rubinomics of the 1990s and an agenda of small tax increases on the wealthy and deficit reduction. Major social investments—including universal health care, spending on infrastructure development, re-regulation of the financial sector, a green energy policy that is not just cosmetic, and the implementation of a new comprehensive taxation policy to pay for these initiatives—will be required to generate the level of sustained economic growth necessary to ensure the survival of the entitlement programs for the next several decades. If the next generation of political leaders is not able to achieve this kind of policy agenda before the baby boomers begin to enter retirement in large numbers, the erosion of economic security for the middle class is likely to accelerate with the collapse of our private and public systems of retirement security.

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