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EDITORIAL

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During the past 10 years, Europe has witnessed rapid changes to the welfare state including reforms of national pension systems. The backgrounds for these reforms are complex, and their character varies greatly among the 27 Member States of the EU reflecting diverse political and economic settings, traditions, compositions and very different political legacies with respect to the interpretation of the role of government. These differences are also reflected in changes to national pension systems.

One general trend is the increasing importance of private pension funds. In certain cases this has been a response to the decline in the extent to which public statutory (first pillar) pension schemes replace pre-retirement incomes. This decline in replacement rates, sparked by reforms of the public pension systems, and threatening the adequacy of pensions, has to a certain extent led to yet other or parallel reforms that establish or strengthen provisions for the creation of private pensions. This evolution is rendering ever more relevant the issue of funded pensions, with regard to three dimensions: method of funding, governance and capacity to provide income in old age. There is also a fourth dimension: how capital invested by workers and their families for their retirement and long-term savings impacts on the economy and thereby on working conditions and employment relations. This last dimension has become more evident in the light of the financial crisis as not only have pension funds suffered heavy losses and now face difficulties in meeting pension liabilities, but they were also very much part of the problem to the extent that they were a part of the building up of the 'shadow' financial sector that caused the financial crisis.

This special issue explores the complex relationship between trade unions and pension funds. This relationship is of particular relevance as pension funds collect workers' deferred wages, and the investment of these deferred wages via the investment policies of pension funds not only provides income security in old age, but it also has effects on and shapes productive assets in the real economy.

While a large strand of the literature has concentrated on the development of pension funds and their ability to provide income security in old age, much less has been written on the role that trade unions play in regulating, governing and defining investment policies of these funds. This issue of *Transfer* seeks to bridge this gap by analysing and stimulating thinking about the role trade unions play in guiding the investment policies of these funds. How can trade unions ensure that pension funds provide for adequate income in old age and at the same time play an active role driving investment in productive assets in the real economy in a fair, sustainable and responsible way?

The articles in this issue bring together authors who from different perspectives address the multifaceted relationship between pension funds and trade unions. The approaches are dissimilar in that they not only address different aspects, i.e. governance, strategies and actors; they also originate from different realities, i.e. academic research and practitioners' reports. They all, however, have in common the aim of clarifying the complex relations of 'trade unions and capitalism' and 'trade unions as capitalist'. The issue aims as a whole to shed light on the regulatory as well as institutional settings that inhibit, limit or promote trade unions in their role as supervisor and controller of pension funds.

To understand the role trade unions are attributed in the governance of pension funds it is necessary to understand the way welfare states are evolving and the institutional role that trade unions play within them. There is a growing literature exploring the development and reforms of the welfare state governance structures and in particular the role that pension funds have played in these reforms. In the comparative literature, little attention is still payed to the role attributed to social partners and the implications that this has on pension income security, the redistributive capacity of pensions and investment policies of pension funds.

The first article by Ebbinghaus and Wiß analyses the diversity of pension governance and funding structures in Europe and the impact of the financial crisis. Using case studies of six countries, they show that the institutional set-up of pension provision and the role of unions in governance vary widely across countries. They argue that this diversity provides an important explanation of the different degree of vulnerability of the pension funds to the crisis. In particular, systems which are weakly regulated and which shift investment risks to individuals have been most affected by the crisis. Although temporary measures have been taken to address the crisis, a key issue for the future is the impact of lower investment returns on pension income. In the long run, stronger regulation and a shift in investment risk away from individuals are needed so that investment strategies ensure adequate income in old age and individuals become less vulnerable to the swings in the financial markets.

While the first article concentrates on governance structure, the following article by Vitols addresses the issue of socially responsible investment (SRI) as a set of policies for influencing the social and environmental impact of companies. The concept of SRI, which states that pension funds should not only get a good return on their investment but also use their influence over companies to increase social and economic welfare, has gained ground in the past decade. Vitols explores the development of the concept of SRI and examines the tensions between achieving socially responsible investment and delivering returns for pension funds. The article describes the European pension fund landscape, gives an overview of national and international SRI initiatives and surveys SRI policies among the largest European pension funds. Several issues often evoked with regard to SRI are addressed: i) how can the monitoring of company behaviour be improved, particularly in areas of core concern for trade unions and their members; ii) how can SRI 'best practice' be spread to more pension funds and to other types of financial investors; and iii) to what extent is there a conflict between SRI and maximizing financial returns, and, if there is a conflict, how can this conflict be resolved? The article discusses these issues and presents proposals as to how trade unions can use SRI to monitor and enforce sustainable investment strategies of pension funds.

The next two articles focus on the actions and experiences of trade unions in governing and guiding investment strategies of pension funds. The article by Beeferman introduces the US pensions landscape in which the major part of pension income is provided by private pension funds. The role and conflicts of trade unions in guiding the investment strategies of these funds is examined in the context of US regulation and focus on the 'fiduciary duty' of trustees to maximize financial benefits for pension fund members. The main focus of the article is on how trade unions envisage, strategize and implement their role as capital stewards, and how the unions and others conceptualize and provide the education, training and other support considered necessary to the task. Examples are given of how in the US multi-union or union-related institutions give additional shape and force to a capital stewardship agenda at a national level and provide tools and resources to enable trustees to advance it. The article points to the fact that trade union appointed trustees do not necessarily need to have an in-depth knowledge of investment strategies and financial markets at the outset but that they do need to have the capacity for leadership and resources and expertise at their disposal. Finally, the article points out that, despite a long history of capital stewardship, the ability to build a capital stewardship agenda that incorporates a trade union vision of what investment strategies should do remains a complex matter for trade union appointees combining the roles of trustee (fiduciary duty) and trade unionist defending core labour standards.

The European trade unions' experience with regard to pension fund investment strategies is analysed in the article by Habbard. It shows that the reality and relevance of trade union capital strategies vary considerably across Europe. While they are key to trade union action in the UK, the Netherlands and the Nordic countries, where pre-funding is an important source of financing of workers' pensions, they have less importance, and may in fact be controversial, in other European countries where pay-as-you-go systems prevail. The article examines the variety of actions and opinions in relation to the framework within which pension funds are set up, and goes on to discuss the necessity for trade unions to come to terms with investment strategies of pension funds given the growing complexity of their portfolio composition and their impact on the economy. The article considers the current European reform proposals to increase asset management accountability and transparency – proxy voting, conflicts of interest, the proposed new Directive on Alternative Investment Fund Managers (AIFM) – and how they could contribute to more efficient active ownership policies and hence provide more scope for trade unions to have a say on investment strategies as well as company policies. The idea of promoting active shareownership is however not uncontroversial. The author points out that shareholder activism is a means to an end, not an end itself, and has the potential of bringing into conflict the rights of shareholders and of stakeholders. The analysis highlights that what seems to be necessary to provide transparency and protect market integrity can hamper attempts to promote socially responsible investment strategies. The article concludes with avenues for reforms that could bring forward more responsible investment strategies and points to the role that trade unions can play. It, however, also warns of the ambiguous situation that certain reforms can create and how this can hamper active and responsible shareownership.

This special issue ends with three articles written by practitioners: two pension fund trustees and one socially responsible investment pension fund. Van den Burg discusses the complex relationship between capital and labour and strongly invites trade unions to embark on a series of topical debates. She argues that the old capital-labour nexus is no longer valid and that trade unions should come to grips with the opportunities that different positions and roles in different countries provide. She invites the labour movement to explore the current debates on corporate governance and financial reform in order to strengthen these positions and establish new strongholds. She encourages the labour movement to engage in the real issue of which strategies and methods can be used to achieve the common purpose of a more sustainable and socially responsible corporate world and financial system in the tamed (it is hoped) phase of post-crisis capitalism to come, rather than debating whether shareholder activism is good or bad, whether employee participation at boardroom level corrupts, or whether funded pension systems are objectionable since they form part of the capitalist system.

Santos provides a vivid picture of what it implies to be a pension fund trustee in the largest pension fund in the US. The author describes the process of becoming a trustee and the difficulties faced by a trade union trustee in the US. He provides thoughtful insight into what the needs of a trustee are and how unions can meet these needs.

The last article by Finskas summarizes the experience of a Norwegian pension fund and its dual goal of providing high returns and using responsible investment policies. The author describes the fund's strategy in terms of criteria by which companies are judged and the instruments the fund uses to implement its policy. The author argues that there does not seem to be a trade-off between returns and socially responsible investment goals, and that social investment strategies should use a variety of tools to promote social goals in order to encourage firms to act according to a set of standards. She highlights the role of trade unions as being the guardians of international labour standards, sources of information and finally as actors that can demand that asset managers adhere to socially responsible investment strategies.

In conclusion, this special issue of *Transfer* reflects the ambiguity and difficulty for trade unions in engaging as financial market actors via pension funds. This difficulty and ambiguity however varies across countries, with the UK, US and the Netherlands embracing the concept of capital stewardship and building up experience and capacity to act. Trade unions and their capacity to act are, however, not the only factors able to influence pension fund investment strategies. Also key is the regulatory framework within which pension funds operate. There are several elements determining how capital stewardship can be carried out and how it can conflict with trade union aims of promoting core labour standards and sustainable growth. The articles identify several avenues with regard to institutional settings, regulatory frameworks, available instruments and importance of the current financial market reforms, in terms of the role of trade unions. Each of the authors has contributed to advance our understanding of the link between pension funds' investment strategies and trade union action. These articles can therefore contribute to stimulate the thinking and debate about this issue.

The issue was inspired by the debates that took place during the conference on capital stewardship that was held in Brussels on 10 December 2009 and co-organized by the Trade Union Advisory Committee to the OECD (TUAC), the Pension and Capital Stewardship project of the Labour and Worklife program, Harvard Law School and the ETUI.

Larry Beeferman,
Maria Jepsen and Sigurt Vitols

EDITORIAL

Au cours des 10 dernières années, l'Etat-providence a connu en Europe, des changements rapides, notamment via des réformes des systèmes nationaux de pension. Le cadre dans lequel ces réformes ont été adoptées est complexe et leur caractère varie considérablement entre les 27 Etats membres de l'UE. Ces différences reflètent la diversité des cadres, des traditions et des relations politiques et économiques, ainsi que des héritages politiques quant à l'interprétation du rôle des pouvoirs publics. Toutes ces différences se sont également reflétées dans les modifications apportées aux systèmes nationaux de pensions.

On observe toutefois une tendance générale: l'importance croissante des fonds de pension privés. Dans certains cas, ils ont constitué une réponse au recul du taux de remplacement du revenu professionnel antérieur offert par les régimes de pension publique obligatoire (premier pilier). Ce recul du taux de remplacement, généré par des réformes des systèmes publics de pension, et qui remet en cause le caractère approprié de ces pensions, a dans une certaine mesure conduit à d'autres réformes, ou à des réformes parallèles, fixant ou renforçant les dispositions relatives à la création de pensions privées. Cette évolution rend encore plus pertinent l'examen de la problématique des fonds de pension, et cela dans une triple perspective: la méthode de financement, la gouvernance et la capacité de fournir un revenu aux personnes âgées. A quoi s'ajoute une quatrième