

UNIVERSITÄT
DUISBURG
ESSEN

Open-Minded

Generationenkapital:

The Proposal of a Funded Pension in Germany and the
Relationship between Finance and Welfare State
Institutions in Financialized Capitalism

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1. Topic and Research Question
2. Take Home Message
3. Supercycles & Thwarting Mechanisms
4. Pension Funds and Financialization
5. Financial Markets and Social Policy
6. Conclusion

1. Topic & Research Question

Topic:

The Relationship between finance and welfare state institutions in financialized capitalism

Research Question:

How are finance and welfare state institutions interrelated in financialized capitalism and to what extent is this reflected in the Generationenkapital?

2. Take Home Message

The relationship between the financial sector and the welfare state reflected in the Generationenkapital is characterized by both welfare state institutions contributing to the **production and preservation of tradable assets** via marked-based finance, and the **financial sector affecting social policy** as...

- **...fiscal condition and constraint**
- **...a complement**
- **...a source of new social risk**

3. Thwarting Mechanisms & Institutional Supercycles

- Capitalist economies are inherently **prone to instability**
- Their **endogenous dynamics** follow complex paths of apparent growth, business cycles and **economic instability** (Ferri & Minsky, 1991)
- Why, then, do economic crises become explosive only relatively rarely?

→ **Thwarting Mechanisms**

Thwarting Mechanisms:

- Institutions that „...reduce the amplitude of basic cycles, **constraining instability** by imposing **ceilings** and **floors** on the dynamic path of the economic system“ (Dafermos et al., 2023).
- They are subject to **erosion** and **supersession** by new thwarting mechanisms, marking secular cycles of rising and falling macro-economic stability.

→ **Institutional Supercycles**

Institutional Supercycles:

- Long-run cycles „over which the effectiveness of **a particular configuration of thwarting mechanisms** first increases and then declines“ (Dafermos et al., 2023)
- Consequence: There cannot be a perfect institutional framework that secures secular stability in capitalism!

Industrial Capitalism (IC):

- post-war until mid-1980s
- weak and immobile finance mainly financing expensive and durable capital assets
- welfare state institutions as **floor thwarting mechanisms** contribute to aggregate demand matching productive capacity

Financial Globalization (FG):

- since mid-1980s
- financial systems produce and preserve **tradable assets**
- generous welfare state institutions perceived increasingly as drivers of inflation
- public welfare institutions **no longer** floor thwarting mechanisms

- U.S. pension funds as „the world’s single most consequential financializing force over the past half-century“ (Braun, 2022)
- delegation to external **asset managers**, who...
- ...**pool the capital** of many institutional investors **into larger pools** of capital.
- savings exceeded non-financial sector demand for investment, contributing to **asset price inflation**

Asset Manager Capitalism (AMC) (Braun, 2022b):

- asset managers aim to **maximize fees** by expanding assets under management (AUM) and inflating asset valuation
- need for new investable assets → pressure for financial deregulation

4. Generationenkapital

- ‚Aktienrente‘ in 2021 coalition agreement
- Now ‚Generationenkapital‘: 10 billion EUR per year (public debt) over 15 years
- Returns shall help keep contributions and benefits constant.
- Management is to be entrusted to the German Nuclear Waste Disposal Fund (KENFO)

4. Generationenkapital

- KENFO holds 20.5 billion EUR in capital investments (end of 2022)
- about 6.5% held in illiquid investments (private equity, private debt, infrastructure) → planned to increase **up to 30%**
- Generationenkapital as a ‚**financialization machine**‘ feeding an excessive asset management sector (Braun, 2023).

Finance as Fiscal Condition and Constraint for Social Policy

- Generationenkapital represents an attempt to secure fiscal foundations of social protection in the face of tight budgets (**fiscal condition for social policy**)
- Fiscal deficits being financed increasingly via financial markets implies need for favorable credit conditions (**fiscal constraint for social policy**)

Finance as Substitute/Complement for Social Policy

- In „a world where [...] institutional investors, where [...] asset managers [...] are stepping into the void left by the gradual withdrawal of the welfare state“ (Beckworth & Gabor, 2018), finance can substitute for social policy.
- But: Public pension is not to be replaced by finance, but complemented (**finance as a complement for social policy**)

Finance as Source of New Social Risks

- dependence on good investment performance → pressure to **maximize returns**
- KENFO relies to a large extent on asset management firms
- publicly sanctioned extraction of yield from areas such as health, care, or housing → **emergence/amplification of social risks**

2. Take Home Message

The relationship between the financial sector and the welfare state reflected in the Generationenkapital is characterized by both welfare state institutions contributing to the **production and preservation of tradable assets** via marked-based finance, and the **financial sector affecting social policy** as...

- **...fiscal condition and constraint**
- **...a complement**
- **...a source of new social risk**

- gains in structural power for finance vis-à-vis other sectors of society
- hard-wiring of financial market interests into the agenda of social policy
- contributes to dynamics of instability by creating social risk which might require protection by resorting to financial markets again

Thank you!

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