Private Pension Systems in the Context of Debt: The Croatian Model of Privatizing the Future

Tuesday 16 August 2022, by ANDRIJEVIĆ Snježana (Date first published: 9 August 2022).

Private pension systems are the most complex domain of financialization in general. These systems intertwine and influence all aspects of present socio-economic circumstances, all the while shaping the future through financial and political dealings. The topic of pension systems best illustrates the complexity and inner workings of global finance. In the era of digitalization, capital markets and the concept of the time value of money – the fact that there is so little understanding and knowledge when it comes to the ubiquity of private pension systems naturally leads to boredom and a general lack of interest. For creators and promoters of private pension systems, this is precisely the goal, whereas their propaganda is even sold under the guise of financial literacy and education.

Private pension funds can be viewed from different perspectives, and new global developments suggest that they should be analyzed in relation to creating debt.

"Pillar II": Getting Rich by Trading Capital

The mandatory pension system in Croatia, popularly known as "pillar II," keeps alive the organized market of capital in Croatia, also known as ZSE (*Zagreb Stock Exchange*). The Zagreb Stock Exchange is also a private organization that makes its profits by trading capital (trading shares, bonds, and other financial instruments and securities).

Beginning in 2002, a World Bank project led the reform of the Croatian pension system following which a quarter of the money – which was paid out of workers' salaries as a public pension insurance contribution – was handed over to private pension funds. The pension reform project was based on the model of Chile. The plan was to gradually shift most of the amount of pension contributions coming from workers' salaries (or even the total amount) away from the state and toward private pension funds. Multiple sides lose when a quarter of pension contributions gets redirected from the public pension system to private bank accounts: the state suffers, the economy itself suffers, and the citizens suffer.

The winners, on the other hand, can be found mainly in the financial sector, among legal and natural persons, especially foreign financial institutions and their owners. Other large or small capitalists, who are not directly connected with these financial institutions, also seized this opportunity to acquire wealth more swiftly and easily – getting rich by trading capital.

Consequently, for 20 years now, every month an employed worker pays as much as 5 percent of their gross salary to private bank accounts and leaves it to the institutional investors to manage their retirement savings. In this way, institutional investors invest real money collected from workers' salaries into the purchase or sale of capital, i.e. they participate in capital trade markets.

Forcing the State into Debt with the Workers' Money

The privatization of state-owned enterprises allows pension companies to assume ownership of these companies (e.g., in the case of Podravka), using precisely the money from the pension funds. In this way, the fate of such companies is indirectly left in the hands of banks and insurance companies that are mostly foreign. Pension companies put their own representatives on the management boards of the companies whose shares they've bought using workers' pension savings. Thus, money collected from pension savings is used to take over the managerial powers in a company, controlling the fate of the entire enterprise. In this respect, the actual workers have only one role, they "contribute from their wages," while their ownership interests are in the hands of a representative selected by the company which manages their pension insurance fund. In addition to management functions obtained through ownership, workers are disenfranchised when it comes to supervisory functions as well, as these roles are also taken over by representatives from the same circles.

Furthermore, institutional investors, namely pension insurance companies, force the state into borrowing money by purchasing government bonds using pension savings, effectively becoming its creditors. Private companies, in turn, are indebted when these pension insurance companies buy corporate bonds. And they do all of this not with their own money, but with the money of the workers, who will always be forced to come to them regardless.

Workers do not Manage Their Accounts

Pension funds are the collective assets of personal pension insurance accounts, wherein the workers themselves as owners of these accounts are completely disenfranchised and have no mandate rights or managerial control. In Croatia, there are four pension funds: Allianz Insurance (together with Zagreb Bank), Erste Bank, Croatia Insurance (together with Privredna banka Zagreb, PBZ), and the Raiffeisen Bank fund, which are all managed by pension fund companies. These pension fund managers consist of institutional investors, separate legal entities owned by the aforementioned banks, as well as insurance companies.

The owner of a unit in an investment fund, be it a natural person or a legal entity with a registered name, is the ownership holder of that unit who may give certain directives to that investment fund management company. However, this is not the case when it comes to pension funds! Account holders can only change their bank or their pension insurance company, but this virtually makes no difference since there are no real differences or competition between these companies.

Long-term savings of workers increase with every payment, which consequently provides pension fund companies (being the institutional investors) with the opportunity to assume power and control. The assets managed by pension fund managers will soon surpass Croatia's total national assets, only to increase many times over as time goes on.

The role of institutional investors – in Croatia these being pension fund management companies owned by banks and insurance companies – is to collect money from workers' salaries, place it on the stock market and convert it into equity capital (by buying shares) or debt capital (by buying bonds).

Using the savings by disenfranchised workers, they buy bonds and force companies and the state into debt, effectively converting pension savings into capital. Then part of this capital is subsequently traded with on the market. It is this unfettered trade in capital that is the most sophisticated aspect of the whole problem when it comes to the complexity of privatization which is affecting the future of workers, and which in turn results in declining living standards workers have today, whereas the other side only sees an increase in luxury and wealth. All of this means that pension fund companies cause more debt using other people's money, all the while gaining enormous power through their role as creditors. The bill, on the other hand, will in the long run have to be paid by the workers themselves in 30-40 years when they go into retirement.

Still, the intricacies of Croatia's system are a hybrid modification of American private pension plans and are not the subject of this article. Instead, we are interested in three key strategic points that are important for understanding the impact private pension systems have on global neoliberal capitalism, systems which Croatia's pension system is based on. These three key points are the American private pension system, the economic crisis of 2008 and the most recent coronavirus crisis that began in 2020. These points will be discussed in the following articles within this series.

Snježana Andrijević is a self-effacing individual labor rights activist. Born in the small industrial and mining town of Vareš in Bosnia and Herzegovina, from which she fled due to the war, in a working-class family. She is a Croatian citizen, lives and works in Zagreb. She is not a member (or still is not a member) of any organized groups, political parties, associations, unions, etc. She wants to share scientific knowledge based on her education and rich professional experience in private sector finance and controlling, banking, insurance and regulatory agency for capital market supervision in Croatia.

P.S.

This article was originally published on February 23, 2022, on Radnička prava and was translated into English by Borna Karanušić as part of a cooperation between Eastern European leftist media platforms in ELMO (Eastern European Left Media Outlet).

LeftEast

https://lefteast.org/private-pension-systems-debt-croatian-model/