Chapter Fourteen

PENSION FUNDS AND LOCAL AUTHORITY INVESTMENTS

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This paper deals with what existing local authorities can do particularly those authorities currently under socialist control to use pension funds for the purpose of long-term investment. (1) National law must therefore be taken as given, though as with so many fields of local authority initiative at the moment, precisely how we should interpret the law is a major variable. But part of the importance of these local initiatives is that they are testing the social control of finance in practice, and they are testing it as one part of a much wider investment strategy.

The Significance of Finance

To begin with we should be clear about the significance of finance in a progressive economic strategy. It is one moment in the overall circuit of capital, a circuit that also embraces (i) the purchase of inputs for the production process; (ii) the production process itself; (iii) the sale of the output. In as much as a progressive strategy envisages that some form of capital circuit will continue and not be substituted by, say, a planned use value form of economy which does not use money as capital, then the question of the significance of intervention at the money capital point of the circuit becomes important.

There are three lines of argument we can distinguish in the current debate. First, there are those who argue that the financial institutions in Britain are a major cause of British economic decline, and their regulation and/or control would be crucial for any arrest in that decline. The financial

institutions are attacked for:

(a) failing to provide long-term investment funds in the UK;
(b) investing abroad;
(c) investing in unproductive assets, or on speculative landed property.

The Wilson Committee (2) considered these points, particularly that relating to long-term finance, and different sub-groups offered various answers: a medium-term re-discounting facility to counter the drying up of long-term industrial bonds; a more active involvement of the long-term financial institutions in industry; and the TUC proposal of a National Investment Bank, to be jointly funded by the state and the long-term investing institutions. Many have followed this general approach both before and after Wilson, emphasising the lack of venture capital for new business, and the more general absence of funds for fixed assets and the long-term.

The major response to this - and not merely from the financial institutions defending themselves - has been that it is not the institutions which are to blame but the lack of projects in which they can securely invest. There has been a steady decline in the profitability of productive industry both in the UK and elsewhere, and it is to the root causes of this that we should address ourselves. There is in fact a surplus of investment funds, but a dearth of profitable outlets. As Marx and Keynes would say, at a moment of crisis money capital is withdrawn from the circuit of productive capital. The crisis is reflected in the monetary sphere, but the money sphere does not cause the crisis.

In broad terms I would support this latter line of argument. Capitalist money cannot alter its intrinsic character, which, like capital in general is to drive always for maximum self-expansion. It invests abroad because there is greater profitability overseas. The fault lies with the removal of exchange controls not the managers of the funds. It invests in property, but the fault lies in an organisation of landed property which permits secular real increases in urban rent, and therefore offers a secure hedge against inflation. It eschews new, small, untried ventures because of the risk relative to investment in large concentrations of capital. In this by and large money capital is right, for it is not just a question of attitudes towards risk, it is that in

general large corporations are economically stronger than small firms, and the real risk is correspondingly less.

It may be that some parts of the British financial establishment are risk averters; that some of them take unnecessarily short views, and are in brief bad managers from the point of view of capital profitability. But the financial institutions attract more criticism because they are managing capital well (from capital's point of view) than because they are managing it badly.

Our experience at the GLC (Greater London Council) suggests we can go further. We have found a number of financial institutions taking a longer-term view than the government would have wished. Major clearing banks (Barclays and the Midland) have been rapidly expanding their industrial first-aid departments. The aim is to avoid a devaluation of their capital by restructuring firms which on the criterion of profitability should be dispatched to the receiver. Major receivers, too, have been involved in many of the restructuring operations - both before they are called in (when they act as advisers to the bank in their capacity as accountants) and as active receivers trying to restructure their assets as a going concern. The Bank of England, likewise, has been active in forestalling bankruptcy by coordinating intervention. All these financial institutions have a self-interest in avoiding capital devaluation, and preserving a productive industry capable of reproducing profits in the long run. From what we have observed in a number of cases, the financial system can be seen as operating an alternative industrial policy to the government, more active in its intervention, and less short-term in its financial criteria.

I say 'short-term' to relate this recent experience to the debate. But in many ways the emphasis on the period of capital funding mis-specifies the issue. The question is whether particular projects are ever likely to be profitable, or put in another and more positive way, whether the criterion of profitability is any longer appropriate for the allocation of resources.

Take first the case of a firm on the verge of bankruptcy. The GLC has been approached by some 30 such firms in the last nine months. The issue in each case is not the absence of long-term funds, but whether (a) there is any hope of the enterprise ever earning a normal rate of profit; and (b) there is a long-term non-market case for supporting the enterprise. As far as (a) is concerned, there are

instances of firms which have expanded too fast, and been caught short by the collapse of demand after 1979. Here there is a case for long-term capital investment. But often these are found in sectors already heavy with overcapacity, when even newly equipped firms may have no long-term security. More common were firms which clearly needed restructuring if they were ever to achieve market profitability: old plants, with old machinery, in some cases producing commodities which were becoming rapidly obsolete technically (such as push-button B telephone boxes) or facing a long-term declining market (for instance in the up market furniture trade). The question in these cases is how the restructuring is to take place (if at all), who is to carry it through, how long will it take, with whom would it make sense to merge. These are the issues - restructuring the use value side of production - rather than the availability or not of long-term finance.

In the Wilson Committee discussion, there were two groups of dissenters to the majority opinion that no new long-term investment agency was required. One group was composed of TUC representatives and Harold Wilson himself, who argued for a new investment agency, capable of investing £2 billion a year in productive industry, and funded from the institutions and North Sea tax revenues. The other group contained significantly Sir Kenneth Cork, who, as the country's most eminent receiver, could be described as capital's official restructurer. This group argued that a new institution was needed which 'would depend partly on its own resources and partly on the number and size of investment programmes it could discover or create. Its own resources consist almost entirely of skilled staff and finance. Of these two, we believe the more important constraint is the staff'. In as much as the issue for the British economy is one of restructuring, the Cork group argued that what was needed was a public body of restructurers who should build up their financial resources in line with their staff capacity. They point out that fund managers do not have skills which are 'appropriate to appraising new projects'. They criticise the TUC line on the grounds that it concentrates on exchange value (finance) and not on use value ('men and machines'). It is the right projects which need to be developed, and only then does finance need to be made available. (3)

What is interesting in this proposal is that it emphasises that a 'shortage of demand for finance is a major part of the

problem' rather than the shortage of supply of long-term funding, but at the same time argues for state intervention in the development of new projects. 'In our view present arrangements need to be buttressed by a new facility (probably organised in a decentralised way) through which new projects and new firms are actively sought and promoted.' (4) It shifts the criticism of financial institutions from their short time horizons to their incapacity to actively develop new projects. The financial institutions might say that restructuring is not their job (though they are increasingly being drawn into it - witness for example Lazards' plan for restructuring the foundry industry by widespread closures with cross compensation). They might argue that it is industrial not banking capital which should restructure production. What the Cork group were suggesting was that, blame aside, if neither were doing it, then the state should intervene.

My argument here is that the main issue is active restructuring rather than long-term finance. The discussion has focused on the inadequacy of institutions to provide appropriate finance, whereas it should first consider the inadequacy of institutions to restructure whole sectors of the national economy. Long-term finance without detailed plans for restructuring will be of limited value as far as projects which will be profitable in the long-term are concerned.

The second issue which tends to get underplayed is whether there are projects which may never make a profit, but which are still important in the long-term. The question here is not short-term as against long-term availability, but whether on market criteria there will be any funds at all. In public investment circles there is a tendency to refer to such projects as 'social'. In the guidelines to the National Enterprise Board or the Scottish Development Agency, they are given only passing reference. These public agencies in order to show themselves rigorous in approach adopt relatively stringent criteria based on expected market profitability, which they apply to new projects. The Cork group argue that their proposed state investment bank should appraise projects which are financed at below market rates against strict criteria, linked principally in to manning and productivity levels agreed with the unions. (5) The new facility should not be used for 'propping up firms for social or political reasons'.

In all these instances the projects are envisaged as

being 'viable' in the long-term. Those that are not are regarded as in some way soft. But this is to accept that market valuations are accurate reflections of social valuation, which is clearly not the case. Some projects may be important for stimulating others, or because they use otherwise wasted resources, or because they might have to be protected against international competition in the long-term because they produce socially useful products with methods of work which do not degrade labour in the same way as international competitors. If we link this back to the earlier discussion, restructuring may take place in a number of ways with very different implications for labour. Some ways involving adequate wages and working conditions will be at a disadvantage in the market vis-a-vis enterprises that have been restructured by and for capital. It is therefore important to have a funding institution which can support and protect projects which have been restructured for labour.

A third type of project we should consider is that where the market is no longer an adequate mechanism for determining the type and pace of technical change. In a number of industries technical change is taking place so fast that any new plant built will be rapidly obsolete. This often discourages investment in research and development. Given the uncertainties, firms wait for others to make the initial moves. Only the largest can carry the costs in these circumstances, and these, too are having to scrap virtually new plant (ICI for example), or to judge constantly the trade off between investing and waiting, or developing a type of technology with a long commercial life, rather than a type with longer-term technical possibilities. The technology of cables is one example, or of electronic switching systems, or types of videodisc.

In the case of technological development, as in the previous point about desirable projects which are unlikely ever to reach market profitability, it is not the financial system but the market system as a whole which is inadequate. Improving the flow of long-term funds aiming for market profitability does not address these problems, and it is these that are further aspects of the process of industrial restructuring.

I have not wished to suggest that adequate long-term finance is not important for any programme of active restructuring. But it should be seen as part of a package, and not as the principle variable. Furthermore, in as much

as it is used as part of a package, its character as capital must be recognised. Its aim is always the maximum expansion of its value, and this remains true whether the banks are run by old Etonians or by socialists in government.

A second line of argument about financial institutions is that they are not like any other private enterprise (as the Wilson Committee implied) but that they form an economic 'estate'. Most recently, this argument has been developed by members of the Open University Financial Studies Group (Coakley and Harris (6)). Finance capital - as we may call this estate - has acted economically and politically as a macro force whose results have been to keep up interest rates and the exchange rate in order to maintain the strength of sterling. This has put British industry in a weak position economically, which it has not been able to remedy politically. For these reasons, the destruction of this political power is needed, via the nationalisation of the financial institutions, following which interest and exchange rates will be adjusted downwards.

This tension between industrial and finance capital is an important one, but the social control of finance capital and a lowering of the cost of capital and the value of the pound is again too restricted a financial view of the necessary conditions for industrial revival. If the issue is as I have posed it, namely one of restructuring, the question is to what extent low interest and exchange rates will encourage restructuring. It can be argued that such falls by providing a degree of protection, would encourage restructuring (certainly Mrs Thatcher thought that the opposite moves of raising interest and exchange rates would lead to restructuring according to her preferred path). It is part of a more active policy of restructuring for labour that these adjustments in circulation are important.

A third line of argument is that the financial institutions are now the commanding heights of the economy, and that their nationalisation will give a socialist government control over finance and industry. A recent and closely reasoned case of this sort has been made by Richard Minns (7) of the West Midlands County Council, but it has a longer tradition in socialist thinking, having much in common with Hilferding's programme for the control of money. In a curious way it is an inversion of the macro monetarists. Friedman, Harry Johnson and their Chicago colleagues, always saw the control of money as offering a path to influence every pore of a country's economic life

without direct intervention by the state. The state could adjust the supply of money, and autonomous citizens would respond according to their felicific calculus. The problem for the monetarists has always been that the state does not have monopoly control of the supply of money in a modern credit economy. For Hilferding, as for Richard Minns, the nationalisation of the banks would give the state that control which it could use for progressive purposes.

The question for Richard Minns, as for Rudolf Hilferding, is whether in an economy of private industrial capitalists, the socialist government control of the issue of money alters the character of money as capital. If a nationalised bank issued long-term credit to a firm which could not repay, what would happen to the financial system? Would the state bank devalue the capital and bankrupt the firm? If it did not receive interest, how would it finance new investment? Would it create money, and if so within what limits? What would happen to the rate of exchange of this nationalised currency? I would suggest that as long as money performs the role that it has always done in capitalism, as a medium of exchange, and means of payment, a store of value, a unit of account, and above all as the money form of capital, then the socialist control of money cannot alter its character. For the nature of money is determined by its part in the process of economic reproduction. If this process remains capitalist (with private ownership of the means of production, and circulation via a market) then money will be called upon to play a particular role, regardless of who formally controls it.

My argument has been that many of the criticisms of British financial institutions in this country should be seen first as criticisms of money as capital ruled by the law of value rather than criticisms of the financial institutions as such. Overseas investment, investment in property, selling out in dawn raids, the paucity of venture capital, all might be expected from money capital which seeks maximum self-expansion. The institutions are bearers of these forces, and we may see them as doing their job too well as they shun long-term investment, manufacturing industry and the British economy.

Having said this, however, two further points arise. First, the law of value as imposed through the market is problematic for capital. The size of investments and their gestation periods are expanding and this increases the uncertainty of any long-term profitability. Industrial capital

needs long-term finance, but money capital as such - whose essence is self-expansion - is no longer an adequate source. Similarly the market's traditional mechanisms of crisis and restructuring are increasingly self-wounding. As the direct interdependence of production grows, so does the severity of a crisis of restructuring since new planned systems of production have to be introduced on an ever wider scale. It is not just a question of the bankruptcy of a small firm and the transfer of its assets to a larger more productive one. It is rather one of massive devaluations, affecting simultaneously great aggregations of capital and whole national economies. Financial institutions are inadequate because money capital guided by the lodestar of market profitability is inadequate, not because the institutions as institutions are at fault.

This leads to the second point, which is the extent to which finance can be insulated from the daily discipline of market profitability (the law of value). Can institutions be set up which perform the functions of financial institutions - as providers of long-term finance, as active restructurers - but obey other economic laws? This is the main issue of this paper. I have not wanted to play down the importance of institutional change, or the question of ownership. But both must be seen in terms of alternative economic forces. If we nationalise the banks we do not abolish the law of value. It reimposes itself through the international money and commodity markets, and through the role of money in the internal capitalist economy. But we can insulate at least part of the national economy from the immediate laws of the market. This is particularly important with respect to the restructuring of production, for it is on this that long-term competitivity (or put another way, long-term insulation from the international law of value) depends. It is then in terms of an alternative economics of production, rather than a modified economics of circulation (the provision of long-term capital, the modification of the exchanges and interest rates) that the change of ownership and control of financial institutions should be judged.

The National and Local Significance of Pension Funds

Pension funds have to come to play a major part in UK finance. Their size has grown from £3 billion in the late 1950s to £64 billion in 1982. Of this £8.66 billion (14 per

cent) is in local authority funds, and £18.66 billion (29 per cent) in other public sector funds. As finance they have a number of distinct features:

(i) The final purpose of pensions is use values rather than exchange values. The retired pensioner wishes to consume goods, rather than re-invest. The pension in money form should thus be seen as primarily a medium of circulation and the employer's liability ultimately a liability to provide use values.

(ii) They are not intrinsically self-expanding. Whereas banking capital has its only meaning as self-expanding value (moving from M-M'), pensions have a different logic. They take the form of wage payments paid after the worker has ceased to work. In private pension schemes the employer's liability builds up during a labourer's active working life. This is why pensions are often seen as a deferred wage. But in fact they amount to no more than a liability, and the history of pensions is a history of the nominal size of this liability, its guarantee, and its funding. Pension funds are one way in which this liability can be met. But they are only one way. Current liabilities can be funded by current contributions or from the employer's current general income (pay-as-you-go). This is effectively what happens in state insurance. In these cases pensions are not paid out of accrued money capital but out of income. This point is clearest when pensions are non-contributory - as they could be and have been in certain periods. Contributions make it appear that pensions are paid out of capital - the invested worker's wages - but in macro terms (and intrinsically) there is no necessity for them to be so.

(iii) Since pensions are closely tied to wages and work, they are subject to decentralised agreement by employers and workers, and therefore are subject to collective bargaining. The question of the control - and within limits the use - of pension funds does not depend on state action, but can be contested by organised labour (the Lucas shop stewards combine is an early example). Local authority pensions funds have further characteristics:

(iv) They are index-linked (thus guaranteeing inflation-proof pensions) and thus involve a liability of a constant real value, approximating to a constant purchasing power or bundle of use values. There is thus no commercial risk for a local authority contributor.

(v) Shortfalls are funded by the local council, effectively from taxes. Rate funds are not capital. They

have no requirement to expand. Rather they are a transfer from private income to (in this case) former state employees. As a matter of practice the guarantees are paid into the pension fund following five-year actural revaluations, so that they become capital prior to their pay out as pensions.

(vi) Since contributions by both employer and employee are funded from taxes, and since the guarantees are likewise paid from the rate fund, we can see local authority pensions as a relation between rate payers and former council employees, and local authority pension funds as a relation between the timing of rate payments to settle a future liability.

(vii) With private company schemes, workers clearly have an interest in an independent fund as a guarantee of their future pensions because of the danger of the company disappearing or not being able to pay when the pension is due. This is much less the case with a local authority. The local authorities' power to tax provides a much firmer guarantee and makes funding less necessary.

When considering the use of local authority pension funds, therefore, we should not be misled as to their nature. They are merely a device for setting aside rate and government grants to meet an eventual liability, constant in use value terms. There is no necessity for them to be used as capital. If they do not earn the maximum rate of return, then current rates may make up the difference. Indeed they could in principle be entirely funded by current rates, or by current rates plus current contributions (in the GLC fund total outgoings in 1980-1 were £30.2 million, while current contributions - excluding investment income - were £52.5 million).

The point here is that there are strong pressures for local authority pension funds to treat those funds as capital. The Local Government Superannuation Regulations 1974 require surplus funds to be invested in accordance with a modified version of the Trustees Investment Act 1961. This lays down guidelines for investment. For example, it requires that the fund be administered with the advice of qualified financial consultants, that the fund be diversified, and that no more than 10 per cent of investment be in unquoted companies.

However, the emphasis of the Act is on prudence rather than maximisation. Under the heading of diversification, divergence from immediate profit maximisation may be

justified. Most significant, up to 25 per cent of the Fund can be used for purposes for which Local Councils have statutory borrowing powers. The Council acts not as trustees but as if they were trustees. It can immediately be seen that there is considerable leeway in how these funds are used.

In 1982 the GLC Pension Fund has assets amounting to £556 million with 39,000 contributors and 22,000 beneficiaries. Its administration is formally in the hands of the Finance and General Purposes Committee, but it is effectively managed by officials in the Finance Department with a team of City advisers. It has been run on conventional lines, treating the fund as capital. The recent report on investments says 'The Fund must be maximised within an acceptable and minimum pattern of risk. Both prudence and legal requirements dictate a wide diversification of investments'. This is reflected in Table 14.1 below:

Table 14.1: GLC Funds 1978-82

	GLC		1981-2	
	1978	1982	Other local authorities	Private sector funds
Fixed interest	35	23	27	24
UK equities	38	41	40	27
Overseas equities	-	7	17	28
Property	19	23	10	15
Other ('short-term' and cash)	8	6	6	6

Source: CIPFA (Chartered Institute of Public Finance and Accountancy).

This indicates a lower proportion of overseas equities than the norm, and a higher proportion of property. Within property, however, there was a low proportion of investment in Central London. As with overseas investment, these divergences were undertaken for policy reasons. In the past few years the policy has been to restore the 'normal proportions' - that is to say further insulate the fund from policy considerations. Thus last year 50 per cent of investments went overseas, and significant property investments have been made in London.

The GLC Labour Manifesto of 1981 contained two commitments vis-a-vis the Pension Fund:

(a) to give the members of the Fund - the GLC employees - a full say in its administration and investment. A panel of 27 has now been set up consisting of nine members and 18 union representatives, with the unions representing pensioners and those contributors not in a union;
(b) to persuade the Fund 'to invest a substantial and increasing proportion of the cash flow of the fund to GLEB' (Greater London Enterprise Board). In 1981-2 the surplus for investment of the Fund was £65 million. This is the stage at which we are now.

There are two directions for advance. The first is the more modest, in that it recognises the Fund as capital and works within those broad limits. Already, the GLC Fund - as the result of initiatives by Finance officers - have invested in a CIPFA consortium for the finance of small industrial premises. This is a sector of the market which until recently was avoided by private property companies, in part because of the costs of management. The GLC fund justified its investment on grounds of diversification, in that they have no investment in that branch of the property market.

But there is a wide scope for the Fund to play in the projects which GLEB (and the Council) are currently putting together, even given conventional interpretation of the nature of the Fund. The most immediate area is property. In all five major rescue attempts we have been involved in to date, the financing of the factories has been a central lever. The GLC has powers under the 1963 Local Authority Land Act to invest in land and buildings, but may contribute only 90 per cent of the value that should be secured on a mortgage. Nor may GLEB use the GLC's money for this purpose other than as an agent. The mortgage still has to be held by the GLC, and GLEB's independence is thereby limited. The aim of the Act, and the modifications in the 1982 Miscellaneous Provisions Act, was to involve private sector finance. For this purpose GLC Pension Fund money can be used as private finance, either to fund all property operations, or to complement GLC funding.

Secondly, all these investments have had two parts: the first is commercial. For example, property has to be valued at market prices (though property valuation is hardly

science or art - but rather a question of convenient formula). Interest on loans has to be charged at market rates. The second part of GLC agreements has been sub-commercial. We have provided revenue funds to make up the difference between expected performance and the normal rate of return. We thus are able to subsidise interest rates (as the West Midlands do), or rents, or provide contributions to other running costs. It has proved quite possible to involve private sector funds in the commercial parts of the package: Barclays have invested in two of the schemes, the Midland Bank in a third. There is no reason why the GLC should not invest likewise, even in equity, given that foreign securities (unquoted on the London market, but quoted overseas) are no longer included in the 10 per cent limit on unquoted company investment. The usefulness of the Pension Fund, as with all internal sources of financing, is that it can be synchronised more easily with the rest of the package.

Thirdly, the Fund is legally permitted to spend up to 25 per cent of its value on capital investment for which the Council has statutory borrowing powers. Given the restrictions currently being imposed on capital spending in the GLC (£10 million in 1983/4), this would enable a significant increase in capital available for industrial investment undertaken directly by the GLC.

Fourthly, the Fund could invest more generally in GLEB projects without specific guarantees (e.g. through a charge on project assets) but with the guarantee of a given rate of return by GLEB. This might take the form of fixed interest loans (the GLEB equivalent of gilts) or of loans with a base rate guaranteed but no limit on maximum returns. There is, of course, an issue about guarantees. Why should the GLC via GLEB shoulder the risk at the expense of private capital? The point in general holds water, but is clearly not applicable in the case of the GLC's own Pension Fund. Given an expected actuarial liability, the GLC will have to make up any shortfall directly from the rates. A guarantee given by GLEB merely obviates the need for guarantee payments by the GLC on that part of the Fund capital. If the Fund's investment earns more than the expected rate of return, this - ceteris paribus - reduces the deficit to be made up from the rates on the Fund as a whole. Hence in the case of Pension Fund money, guarantees can be given in the knowledge that this is effectively a self-guarantee. For this reason, the Council should be able to borrow more cheaply

from the Pension Fund than on the open market - particularly if the guarantee rate is taken as the rate on gilts.

An alternative form of guarantee would be of capital losses on a particular investment rather than on an overall rate of return.

The significance of local authority pension funds in the above cases is:

(a) it allows local authority instruments such as the GLEB, or the Council itself, to get round certain government restrictions on capital spending and property investment;
(b) because of the guarantees which it makes sense for the Council and GLEB to offer to pension fund investments, it should be possible to obtain funds at lower interest rates and for longer-term periods than ordinary commercial loans. (It should be remembered that GLEB and the Council would be offering the fund something it would not normally get in the open market - even were it to lend to other local authorities and public bodies - and that is hard guarantees);
(c) given that it would effectively be a source of internal finance, it could be more easily managed as part of an overall package.

There remains the question of the best means of investment. One proposal we are considering is a financial subsidiary of GLEB to manage pension fund investment. This fund would have an overall guaranteed rate of return, and individual investments would be left for it to manage. This has the advantage of avoiding the formal procedures of Council assessment, and placing control of the funds directly in the hands of GLEB financial officers. West Midlands have pioneered this approach, and are involved in developing different types of funds of this sort, one for the inner city, another for a particular sector.

The above I see as the minimum use that can be made of pension funds. The proposals acknowledge the requirements of the pension fund as capital, but use this capital for wider purposes. One of the dangers of public investment bodies such as GLEB seeking external funds is that they gear their investment criteria to those of the financial market (see for example the Scottish Development Authority) or make a compromise which still ties broad

policy to the law of value. This I regard as unnecessary. It is quite possible to separate any investment into its commercial and sub-commercial components. Pension funds may be incorporated in the first.

The question remains: how much further can pension funds be taken? Can they be of wider use than a secure, internally managed commercial source of finance? To begin with, direct control by an investment panel composed of unions and councillors can direct the funds in the commercial market to link in with the Council's wider economic and political policies. For instance the Council operates an early warning system to indicate which plants in London are threatened with redundancy or closure. Major firms identified can then be talked to and offered some carrots if necessary. There are also some sticks: GLC's purchasing powers are one such (for instance Plessey has recently announced a closure in Romford and we have found it is bidding for a large computer project for the London Fire Brigade); our planning powers are another (which we investigated in relation to the closure of Hoover's in West London). The Pension Fund's investments are a third. Table 14.2 shows the largest 20 holdings of the Pension Fund in British equities.

Large manufacturing companies are significantly under represented, but many have substantial operations in London, and two have recently been involved with the Council in discussions about closures.

There are many other policies for which pension funds could be used as a lever. The GLC is currently starting a contracts compliance unit which seeks to use its purchasing power to induce employers to put into practice the principles of Equal Opportunity legislation. Pension fund investment could be used similarly. The GLC has used its purchasing power in RTZ and Shell to object to policies followed in the Third World, particularly in South Africa. The American unions are using pension fund power over these and wider forms.

What is needed in this respect is coordination between authorities. The GLC fund at the moment restricts its investments in any one firm. For instance the £9 million invested in BP is only 4 per cent of the £229 million invested in UK equities, and less than 2 per cent of the fund as a whole. It also represents only a small proportion of BP shares. However, together the major local authority and public sector shares would control a substantial proportion

Table 14.2: Twenty Largest Equity Holdings at 31 March 1982

Position	Company	Market value (£000)
1	British Petroleum Co plc	8990
2	Shell Transport and Trading Co. Ltd.	8213
3	BAT Industries, plc	6270
4	General Electric Co. plc	5245
5	Marks & Spencer, plc	3813
6	Barclays Bank, plc	3790
7	Beecham Group Ltd.	3259
8	Prudential Group, Ltd.	3237
9	Imperial Chemical Industries, plc	3228
10	Lloyds Bank Ltd.	3198
11	BTR, plc	3006
12	Boots Co. Ltd.	2994
13	Grand Metropolitan, plc	2943
14	BPB Industries, plc	2800
15	Royal Insurance, plc	2700
16	Northern Foods, plc	2667
17	National Westminster Bank, plc	2653
18	Rio Tinto-Zinc Corp., plc	2653
19	Hanson Trust, plc	2592
20	Unilever, plc	2571

of the major companies shares. Richard Minns estimates 20 per cent of all UK equities are held by pension funds, but in individual cases this will be significantly higher. (7) The West Midlands have taken the lead in trying to coordinate local authorities' pension funds in this regard, and to build parallel systems to those in the United States where the trade unions have developed a computer system on company information and pension fund holdings.

The wider issue, however, is whether it is possible to break the close link between pension funds and commercial rates of return. Given the inadequacy of profit as a guide to major long-term investments, what is necessary is a fund which can be used for restructuring without the constant discipline of the money market hanging over it. There are strong arguments why pension funds should be used for this purpose: they derive from the rates whose purpose is more

generally to provide services and infrastructure for Londoners. The long-term economic health of London is in the interests of those who work in London, both as citizens, and (with some mediation by the rate support grant) because the future rate income will in part depend on the general level of economic activity. Most important of all, if the restructuring of production in London is to take place in a way different to the process as organised by capital, if it is to be a restructuring in the interests of labour both as workers and consumers, then the GLC employees as workers have a clear interest in providing a source of finance for this end.

This brings me to the final emphasis of this paper. The main issue in the UK (and in London) at the moment is restructuring. Capital through monetarism is carrying through their version of restructuring at the expense of labour, with enormous waste, and with fearful consequences so far as the state of the world economy is concerned. The task of socialists is to resist this version, and instead to work through alternative versions which we have called restructuring for labour. This involves workers, and socialist-controlled authorities, developing projects which can hold their own in the long run, but which produce outputs which are directly related to working people's needs, in ways which build on the skills of labour rather than deskilling them. The main problem in this process is the construction of the projects. In this sense, the Cork group in the Wilson report is right, though they envisage the process of restructuring taking place in another way. Finance is one part of this package, but only a part. It cannot lead it. In our first year of operation we have found money to be the least of our problems: at times it has even been a negative factor. However, the particular character of pension funds as not inherently capital, means that they can usefully be used (even with procedures which regard them as capital), and in the longer term may be the source for supporting a much wider programme of restructuring than any individual local authority or group of workers can currently mount.

NOTES

1. This is the text of a paper delivered on 21 January 1983 at the Future of Finance Conference organised by the Open University Financial Studies Group.

2. Committee to Review the Functioning of Financial Institutions (1980) Report, Chairman the Right Honourable Sir Harold Wilson, HMSO Cmnd 7937.
3. Ibid, p.271.
4. Ibid, p.271.
5. Ibid, pp.265 and 272.
6. J. Coakley and L. Harris (1982) 'Evaluating the role of the financial system' in D. Currie and M. Sawyer (eds), Socialist Economic Review, 1982.
7. Richard Minns (1982) Take Over the City, Pluto.