Editorial

Control of Pension Funds

At this year's Trades Union Congress, calls have been made for 50 per cent trade union representation on the boards of trustees of occupational pension schemes and for restriction on overseas investment by the scheme. Mr Arthur Scargill of the National Union of Mineworkers is reported to be pressing for the Coal Board Pension Fund to cease overseas investment and to concentrate its investments in Britain.

In its report, the Wilson Committee (Cmnd 7937) concluded that real investment in the UK was not being generally contrained by shortages in the supply of finance. The problem was, in its view, rather the price of finance in relation to expected profitability. When the Report was published in 1980 the real cost of capital was almost certainly higher than the average real profitability of industrial and commercial companies.

The views expressed at the recent Congress, and separately by the Labour Party, would seek to cast aside the wide-ranging expertise which went into the deliberations of the Wilson committee. Adoption of the new proposals would involve additional investment in the UK stock market by pension funds which, in the absence of the creation of profitable new investment opportunities, would lead merely to rises in existing stock market price levels probably accompanied by sales of UK equities by other investors (the proceeds being most likely invested overseas where yields would have become relatively more attractive). Alternatively, pension funds would have to invest in "soft" loans to UK industry to finance relatively unprofitable real investment; this would reduce the return for members of schemes and could result in loss of capital if the underlying real investment was found not to be viable in the long term (alternatively any such losses could be underwritten by the Government though this could have other undesirable economic effects). The only way of achieving the aims of the new proposals in practice would be to increase the profitability of industrial investments in Britain, for which in the view of the Wilson Committee there would then be no shortage of available finance. How this could be achieved is too large a question to be addressed here but the new proposals seem to be misdirected.

In any event, recent reductions in UK interest rates to levels nearer the real profitability of industrial investment will hopefully ease the investment problems of British industry.

The Wilson Committee did, however, take the view that there should be a comprehensive framework under a Pension Schemes Act for securing the accountability of pension schemes. Professor Gower in his recent Green Paper on Investor Protection agreed that urgent consideration should be given to this proposition. It is clear that there is a need for improved financial reporting to scheme members and others, in the absence of formal prudential supervision, and the Accounting Standards Committee is hard at work on preparing recommendations in this connection.

There also needs to be adequate member representation on the boards of trustees of schemes. Many companies have already improved the level of members' representation but much remains to be done. However, there is likely to be much dispute over the view that this representation should be through trade union channels. Indeed, conflicts of interest could arise since these proposals appear to be linked to Labour Party proposals on similar lines which would also involve 10 per cent of a fund's assets being invested in a "National Investment Bank" and 5 per cent in local enterprise boards specialising in "job creation projects". If the TUC/Labour Party proposals were to be implemented at a future time, would the new trade union trustees be able to take a sufficiently robust and independent line in protecting the long-term financial interests of the scheme members?

There is also a wider perspective. A reason for the Labour and Liberal parties supporting a "Securities Commission", one of the options suggested by Gower, is that they view pension fund investment management as an under-regulated part of the securities market.