

The *Ambachtsheer* Letter

Research and Commentary on Pension Governance, Finance and Investments

Letter # 233

June 2005

PETER DRUCKER'S PENSION REVOLUTION AFTER 30 YEARS: NOT OVER YET

*"No book of mine was ever more on target when it was published in 1976.
And no book of mine has been ever more totally ignored".*

Peter Drucker, writing in 1996 about his pensions book
"The Unseen Revolution",
first published in 1976.

Two Unfashionable Themes

Thirty years ago, Peter Drucker's 'on target, but totally ignored' book on pensions ("The Unseen Revolution: How Pension Fund Socialism Came to America") explored two related themes. Both themes were, at the time, deemed unfashionable or even irrelevant in a society dominated by young Boomers just beginning to enter the workforce:

Aging and longevity would become dominant socio-economic issues as the outsized Boomer cohort begins to retire 30 years hence.

Pension funds would become dominant owners of the means of production as the massive cash-flows going into these funds over the coming decades would increasingly be invested in equities rather than debt securities.

"The Unseen Revolution" was not intended as a prescriptive book, offering specific solutions to lists of coming challenges facing an aging society, and the challenges of the 'socialization' of capitalism taking place through pension fund ownership. Instead, it was a prescient book, clearly describing the nature of the challenges lying ahead, and identifying the issues that would have to be addressed along the way.

The goals of this *Letter* are two-fold. Its first is to list the pension politics, design and management issues that Drucker identified 30 years ago as needing our attention. His issues fit neatly into the four 'pension issue categories' we have been using in these *Letters* for some time now. Specifically, these categories are: (1) politico-agency issues, (2) pension contract and risk issues, (3) investment beliefs issues, and (4) pension governance and management issues.

The second goal of this *Letter* is to develop a scorecard to assess how well we have actually handled these issues over the course of the last 30 years. It turns out that Drucker was far better at identifying the critical pensions-related issues that we would be facing, than we have thus far been at addressing them. In short, 30 years later, the pension revolution is far from over.