

# The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

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## LOOKING ACROSS THE ABYSS:

### PENSION DESIGN AND MANAGEMENT IN THE 21<sup>ST</sup> CENTURY

*“Our economic leadership does not seem to be aware that the normal functioning of our economy leads to financial trauma and crises.....in short, that financially complex capitalism is inherently flawed...”*

Hyman P. Minsky, 1986

#### Trauma Therapy

We start with a confession. When we wrote in the August *Letter* that “returns on most risky assets will likely be below their long run averages for some time yet” we were not imagining the two months of compressed financial trauma that has taken place since. As the global financial system teeters on the edge of an abyss, stock prices have been rising and (mainly) falling daily by amounts that used to take years. What was originally perceived as just a Wall Street issue, has now become very much the #1 issue on Main Street. In light of all this, the goal of this sequel *Letter* is to offer perspective. Recent events need to be framed in a way that helps people and organizations transition from current states of shock and trauma to constructive deliberation, and eventually, constructive action.

Our ‘framing’ plan comes in four parts. First, we need to articulate a theory that explains what has, and is still causing the trauma on Wall Street, and increasingly, on Main Street as well. Fortunately, such a theory has been with us for many decades, possibly articulated most clearly by an (until now) obscure American economist named Hyman Minsky. Next, guided by Minsky’s theory (i.e., the Financial Instability Hypothesis), we sketch out a plan of what needs to be done immediately to stabilize the faltering financial and real economies. Versions of this plan is now taking shape around the world. We also identify actions that would help prevent the recurrence of the kind of finan-

cial crisis currently underway. Finally, we will turn our attention to the implications of all this for pension design and management in the 21<sup>st</sup> century, and for the pension industry leaders charged with leading the way.