

The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

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EXPECTATIONS MARKETS OR REAL MARKETS?

WHICH SHOULD PENSION FUNDS INVEST IN?

“Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done.”

John Maynard Keynes, 1936

“There is a vast literature on pension funds, but it is largely on actuarial and portfolio management matters. There is little on the social and political implications of pension funds, and very little concern for the economic impacts, on capital markets or capital formation, for example.”

Peter F. Drucker, 1976

“If business wants to enjoy the benefits of long-term staying power, it must reject the strategies built on Shareholder Value Theory and turn its attention to the real market.”

Roger L. Martin, 2009

Pension Fund Socialism?

Peter Drucker coined the term ‘pension fund socialism’ in his 1976 book *The Unseen Revolution: How Pension Fund Socialism Came to America*. In it, he pointed to the little-recognized fact that increasingly, ordinary employees were becoming owners of the means of production through their participation in pension plans and personal retirement accounts. Drucker predicted that the economic and political consequences of this growing reality would eventually have to be dealt with. We now know that “eventually” is taking a long time to unfold. Today, almost thirty-five years after Drucker’s prediction, the economic and political consequences of the ‘unseen revolution’ are still not clear.

However, we do now understand the heart of the matter more clearly. It is the relationship between

the vast multi-trillion dollar accumulation of retirement savings around the world, and what the great economist Keynes calls ‘enterprise’ in the quote above (from *The General Theory of Employment, Interest, and Money*), and what Roger Martin, Dean of the Rotman School of Management at the University of Toronto, calls ‘business’ (from “Undermining Staying Power: The Role of Unhelpful Management Theories”, *Rotman Magazine, Spring 2009*). The goal of this *Letter* is to explore the current status of the relationship between retirement savings and the ‘enterprise/business’ that Keynes and Martin refer to, and to see where that exploration leads us.

As the *Letter* title foreshadows, the exploration raises some profound questions about the validity, and hence legitimacy of the current pension investment paradigm.