



IMPROVED PENSION DESIGNS AND PENSION ORGANIZATIONS: GATEWAYS TO A MORE FUNCTIONAL CAPITALISM

“...with the separation between ownership and management which prevails today... and with the development of organized investment markets...a new factor of great importance has entered in...which sometimes facilitates investment...but sometimes adds greatly to the instability of the system...”

“...it might have been supposed that competition between expert professionals...would correct the vagaries of ignorant individuals left to themselves...it happens however that their energies and skill are mainly occupied otherwise...largely concerned with foreseeing changes in conventional valuations a short time ahead...”

“...the measure of success attained by Wall Street...regarded as the institution of which the proper social purpose is to direct new investments into the most profitable channels in terms of future yield... cannot be claimed as one of the outstanding triumphs of laissez-faire capitalism...if I am right in thinking that its best brains have in fact been directed towards a different object...”

Excerpts from Chapter 12 of John Maynard Keynes’
“The General Theory of Employment, Interest, and Money”, 1936

A Lecture in London

Earlier this year, we were invited by the UK’s *FairPensions* organization to give a lecture in the Houses of Parliament. The event took place this past November 15. It provided an opportunity to place Keynes’ insights on faux vs. functional capitalism, and Peter Drucker’s on the special role of retirement savings in shaping capitalism, in a 21st Century setting. Out of these insights falls the critical conclusion that the \$30 trillion pension fund sector is the only investor class with a fiduciary duty to invest across generations. Thus it is the only institutional investor class with a clear motivation to, in Keynes’ words, “direct new investments into the most profitable channels in terms of future yield”.

The lecture acknowledged that capitalism faces strong headwinds today as reflected in issues such as aging populations, physical limits to

growth, bubbles and financial crises, a growing rich-poor divide, and continuing alignment of interest challenges between corporate managers and owners. Also, the traditional DB and DC pension designs both mitigate against pension funds playing the wise intergenerational investor role we would like them to play. Their ability to play this role is further hampered by the generally weak governance and organizational structures of these funds.

The good news is that there is no need to invent either better pension designs or stronger organizational structures. Logic and research has already identified them. Further, here and there, they already exist in practice. Our collective challenge is to vastly accelerate the process of moving these ‘better ways’ into wide-spread practice around the globe. In the end, it is a question of leadership.