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Partisan Politics and Bureaucratic Encroachment: The Principles and Policies of Pension Reserve Fund Design and Governance

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Abstract


In an era of population aging and increasing fiscal pressures on nation-states, pension reserve funds have been mooted as effective investment vehicles for realizing future liabilities and achieving some balance between generations. Nonetheless, concerns have been raised that partisan political interests combined with bureaucratic encroachment are likely to adversely affect fund performance. In this paper, we consider the issue of design and governance beginning with broader issues of institutional legitimacy and autonomy before looking more closely at the management of these institutions with respect to holding partisan politics and bureaucratic encroachment at bay. We suggest a set of six core principles of design and another set of six policies of governance and management that we believe are essential to the functional performance of such institutions. These principles and policies are derived from previous research on pension fund governance and detailed analysis of four pension reserve funds that offer lessons for best practice. These principles and policies are not intended to provide funds with an absolute claim for independence; rather, the design and governance of these institutions should facilitate an effective and symmetrical relationship between the institution and its sovereign sponsor. These arguments are developed with reference to changing global financial markets, and the fact that the financial assets of these institutions are increasingly seen in the context of nation-states' total balance sheets of assets and liabilities.

Keywords: governance, encroachment, partisan politics, investment management

JEL Classification: G23, H11, L32

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