
NON-AGENDA

With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be — Be quiet...Whatever measures, therefore, cannot be justified as exceptions to that rule, may be considered as *non-agenda* on the part of government.

—*Jeremy Bentham* (c.1801)

Fund Managers and Superannuation

Stephen Grenville

This paper gives an outsider's reaction to some aspects of retirement income in the current system. There are big issues here, both for superannuants (are they getting value-for-money from their managers?) and for the economy (is Australia achieving the right level of saving and getting its investment into the best projects?). In the face of the complexity of the issues, it may seem bold for an outsider to venture a view: but there are important unresolved issues and questions. This paper will not resolve them, but might serve to put some of them more centrally on the agenda for discussion.

The starting point is with fees — how big are they, and what you get for your money. One thing you get is funds management, but we pose the question here whether funds managers in general can provide advice which will beat the market — that is, do better than a mechanically-indexed fund. Some evaluation of retirement incomes is attempted — first at a general level, then focussed on whether the superannuation industry is meeting the needs of the superannuant, and finally whether the needs of the general economy are being well served.

Fees: What Do We Get For Our Money?

Before we can make any sensible assessment of fees, we need to establish what service is being provided in return. Functional distinctions made here will be somewhat arbitrary, but it may be useful to divide the overall role into three components — distribution/advice, administration, and fund management proper.

At the retail level, three sets of rules lend a special complexity to the *distribution/advice* component. Much of retirement saving is done in the form of

Stephen Grenville is Adjunct Professor at the Asian Pacific School of Economics and Government, The Australian National University, and former Deputy Governor of the Reserve Bank.

the compulsory Superannuation Guarantee Levy — the compulsory nine per cent deduction from incomes, and there is a set of rules governing this, as well as general rules covering superannuation. Secondly, there are special taxation rules associated with these funds, as they go into the financial vehicle, as they earn income and capital gains there, and as they come out again. And these rules operate alongside the government pension framework, with complex eligibility rules for asset tests and part-pensions. These three sets of rules and entitlements combine to provide a degree of complexity that few savers want to tackle without specialised advice.

The second function is *administration*: once the money is allocated to superannuation saving, its disposition among investment vehicles needs to be tracked, income and capital gains recorded, taxes paid, distributions made and all this reported not only to the investor, but in a form which also satisfies the requirements of tax, superannuation and pension rules. This function is like shelling peas — you have to be careful and there are a lot of little things involved, but it ought to be straightforward enough to be largely a computer exercise.

The third function is *funds management* proper — finding the highest return given the risk appetite and liquidity requirements of the investor. The fee charged for fund management (either within the same institution or paid to a specialised manager) depends on the type of investment and whether the fund is actively managed or passive. This ranges from a little over 0.1 per cent for simple passive funds, to around 0.6-0.7 per cent for active management.

Fees: How Big?

It is not easy to get a simple handle on fees. The topic may be intrinsically difficult, but the industry groups are quick to criticise those who attempt to analyse returns (see, for example, criticism by the Association of Superannuation Funds of Australia (2003) of the Australian Prudential Regulation Authority's (APRA, 2003) Working Paper on this subject, without offering much of an alternative: they are still arguing about an agreed disclosure model (see, *Sydney Morning Herald* 'Money Manager', May 14, 2003).

Perhaps the most straight-forward of the studies is from the Reserve Bank of Australia (2003). Unable to get a simple representative measure of fees, the RBA study focuses on the *expense ratios* of super funds, which are a little over one per cent of assets for wholesale funds, and around two per cent for retail. At retail level, there is an additional commission paid to agents for helping the investor. A small sample of brochures suggest these agent's fees can be around 4 per cent as a once-off charge or an equivalent figure spread out via 'trailing commissions', which the RBA suggests might amount to around 0.4 per cent per year.

Other studies (for example, Clare (2001), Rice and McEwin (2002), and Bateman and Mitchell (2001)) quote significantly smaller numbers, but these seems to be partial figures, which may be relevant to the working employee, but not to the retiree, accessing retail superannuation products. Using data from its annual data-base and a (low) estimate of external investment expenses, APRA

(2003) found the average expense ratio to be 1.28 per cent, with this average made up of a range from 1.25 per cent for the corporate sector, to 1.56 per cent for the retail sector.

As an illustration of the difficulty of getting a clear handle on the size of fees, the Sydney Morning Herald's regular writer on this topic quoted fees of 1.27 per cent and, a few paragraphs later, of 2-3 per cent, without commenting on (let alone reconciling) the 100 per cent disparity (*Sydney Morning Herald*, October 11-12, 2003).

If we accept the RBA estimate, such fees more or less negate the taxation advantages of super for many retirees, even those on the highest marginal tax rate. A simple example illustrates the point. Assume a good return of 10 per cent. If this income is received outside the superannuation framework, the tax-take is close to five dollars out of the income for every \$100 invested, compared with a tax-take of around \$3 within the superannuation framework. But the fund manager then takes another \$2.00, without counting the entry fee. And if the return was five per cent rather than ten, the fee would take up well over half of the after-tax income.

Funds Management

In practice much of the broad asset allocation advice tends to be driven by pension eligibility and taxation consideration, and by the general principle of asset diversification. This is sensible enough, but it does bring to mind the story attributed to James Tobin, who won the Nobel prize for (among other things) his contribution to portfolio theory. When asked what this was about, he is said to have replied: 'It means that you shouldn't put all your eggs in the one basket'. Investors might hope for more precise advice.

Tobin's work, plus the related areas of Modern Portfolio Theory (MPT) and the Capital Assets Management Model (CAPM), do in fact offer the promise of more precise advice, but how relevant is this?

The problem here is that all this rests on the idea that 'risk' can be encompassed in the variance of returns, and in particular in a 'beta' (a measure of variance) which is well defined and stable. At least at an intuitive level, it seems far too simple an idea to capture the complex and diverse nature of risk, especially as so much risk is once-off, and more in the nature of *uncertainty* rather than risk (that is, it can't be captured by a reasonably well-defined probability distribution based on historical data.). At an intuitive level, there seem to be other problems as well. If the only issue is short term variability (as captured by the beta), the rational investor should choose a variable 10 per cent return over a steady eight per cent, because over any time horizon other than the very short term, the investor will be left with more money. The risk in an equity at the peak of a bull run is not captured in any meaningful way by the beta. Beta-based analysis would also suggest little change in portfolio composition over the course of the cycle (whereas the best portfolio managers will provide their greatest value-added by good calls of major asset re-allocation at turning points in the cycle). As well, this

analysis would suggest a greater variety of assets in the portfolio (especially a greater proportion of foreign assets) than happens in practice. So there must be more to ‘risk’ than this, and the beta concept does not seem to be the essence of the investment decision.

There is another, related, argument coming out of this same literature — the idea of ‘efficient markets’ (also associated with the idea of the ‘random walk’). The argument here is that all information has already been incorporated fully into asset prices. This would still leave the possibility that investors might be able to get a higher return by taking on more risk, but if this risk can’t be identified more effectively than through the beta (and recent experience shown no correlation between risk, as measured by beta, and return), then the professional investment advisor has little to offer in the way of specific value added.

Here we find a curious ambivalence in fund managers’ thinking. Quizzing fund managers about their faith in ‘the magic of the market’ we find they are, by and large, believers in the principle that markets work well: they adhere to the ‘efficient markets’ view of the world. But if this is so, the next question must be where they think their own value-added comes from. Either the fund manager must have inside information, not available to the rest of the market (which is by and large illegal), or there must be a combination of two circumstances — the market is not the same perfect efficient market of textbooks and finance theory, and, *in addition*, the fund manager understands the working of this non-perfect market in a way which will enable the funds to be deployed ahead of market movements.

The real world *does* seem to behave differently from the text-book ‘efficient market’. Even casual observers of the markets can see behaviour which, if the text-book model were right, would be impossible or at least very unusual. For example, markets seem to over-react to ‘news’ — new information, and ‘herd behaviour’ seems common — indeed, the norm. Another regularity is reversion to mean: after share prices have been pushed up by a bout of euphoria, there comes a point (perhaps triggered by a minor event or piece of news) when the euphoria evaporates and the price falls, probably to lower than its long-term average. If we combine these two offsetting tendencies, we might observe prices moving in the same direction for some time (that is, transgressing the efficient markets rule by being auto-correlated), but for this to be reversed and for the ‘fundamentals’ to re-assert themselves (perhaps with an overshoot in the opposite direction). Financial prices — exchange rates, equity prices, bond prices, physical asset prices — move in cycles of bear and bull markets, and such phases are easy enough to identify in history — the cyclical movement of share prices does not look like a random walk. If a fund manager could predict even some of the dynamics of these cyclical or structural swings, then they could beat the market — because the market is not ‘perfect’.

This is, to say the least, a very different world from MPT and CAPM. It is closer to Keynes (1936:155-6) description of the stock market, which he described as:

so to speak, a game of Snap, of Old Maid, of Musical Chairs — a pastime in which he is victor who says SNAP neither too soon nor too late, who passes the Old Maid to his neighbour before the game is over, who secures a chair for himself when the music stops.

Serious fund managers might argue that there is more skill to it than this, but the metaphor does highlight the basic problem. Even if there *are* medium term cycles in financial markets, fund managers will often get their *timing* wrong: ‘no-one rings a bell when markets change’. If they were perfectly free in their portfolio management role, they might stand a chance of getting the timing more or less right, getting into the market somewhere near the bottom and selling somewhere near the top. But they don’t have this freedom, because they are generally judged against a time horizon, which is far shorter than the market cycle, and even minor errors in timing will be evaluated adversely, with investors withdrawing their funds before a position has time to prove itself.

If they are evaluated by usual measures such as ‘how did your portfolio go this quarter?’, they will experience times when what turns out to be a good call is not validated quickly enough to save their bacon in the fiercely short-term evaluation of investors. This is why the best of the active funds managers tend to gravitate to boutique operations where the larger investors understand the issue and are more patient. BT’s famously prescient call on the 1987 stock market fall almost failed because they made it six months too early. Or, for an even more dramatic example of premature timing, look at Alan Greenspan’s (1996) call of ‘irrational exuberance’, made in 1996, five years too early, when the Dow was less than 7000. Whatever the counter-examples, there are strong incentives for funds managers to stick with the pack (even when they are supposed to be active managers). Better to be wrong along with most others, as Keynes (1936:158) said: ‘Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally’. Fund managers want to beat their competitors, but each knows that job security lies in staying close to the pack.

Can a truly active funds manager survive for this long, judged under short-term performance criteria? Can the investor distinguish between a funds manager who is profitably riding the long cycle, and one who has lost the plot? All the rules of thumb (‘cut your losses; sell losers’) are working against it.

It ought to be possible to test this definitively through the most practical and relevant measure of all: who performed best? The issue is usually tested on the basis whether active managers can beat passive index-managers. This is, in fact, a narrower question than the one we have been exploring, which was more about the possibility of calling turning points that would signal radical re-allocation of the *broad asset categories*. If there *are* regular cycles, it is not enough to judge fund managers by their ability to beat the market within one narrow asset class (such as equities), but we might reasonably ask them to re-jig the asset mix of our portfolios in order to ride out (and benefit from) the cycle. So they should have put us in equities during the early days of the ‘tech boom’ and got out as the

bubble was bursting. No doubt some did. But many fund managers are confined largely to staying within a general asset category, and so most investors were left to weather the cycle, with the cold comfort that came from comparisons of their own portfolio with the dismal average of the market.

We know of no careful study of this wider issue of asset allocation, so here we will report the results of the narrower issue: who beat the index? In the USA the answer is reasonably well accepted: taking into account fees, only one third of active managers can beat the index (see Malkeil, 1999). They don't beat the index by much, and past performance on beating the index is no guide to whether particular fund managers will beat it in the future. This should not come as any great surprise to anyone who accepts the broad conclusion of the Efficient Markets Theory: As Bill Sharpe (another Nobel prize-winner for work on portfolio theory) has pointed out, if the market is made up of indexers and active managers, the active managers must, on average, get the index return and, after fees, the investor in an active funds (again on average) gets less (Sharpe, 1991).

What is the Australian experience? An informal survey of the literature might conclude that, taken over the last couple of decades, active equity managers have been able to beat the index by an amount which would more or less cover their fees (see, for example, Dolan, Hodgens, and Wells, 2001; Dolan, Hodgens and Wells, 2003; Drew, Stanford and Veeraraghavan, 2002; Fitzherbert, 2000; Frino and Gallagher, 2000; Gallagher, 2000; Graham, 2002; and Hayes, 2001) but the more recent experience is tending towards the US result, namely that on average the active managers don't outperform the index (see, for example, Drew and Stanford, 2003).

In the market-driven assertions made by funds managers, it would be easy to reach misleading answers. A number of technical issues need to be covered. Are some funds getting higher returns by taking more risks? Do they beat the index because they have special access to IPOs? Are the data polluted by 'survivor bias' — the fact that the least successful managers have dropped out of the sample? Is the sample comprehensive, or has it allowed managers to be judged on their more successful funds? All these matters could be debated (and should be); but for our purpose here it might be enough to note that, whatever the performance of the managers in the days when the market was less well-informed than it is now, the strong tendency will be for the outcome to move in the direction of the efficient markets paradigm, in which it will be hard for managers, *on average*, to beat the index.

One more aspect of funds management might warrant a comment: the vogue for offering actively-managed funds in terms of 'style' designations; that is, is the fund 'growth' oriented or 'secure'. Again there seem unresolved issues. Perhaps one of the most vexed issues is the notion that 'growth' *as such* should add value to a share. The price of an equity is closely related to the discounted present value of the expected income stream, so of course it is true that if there is going to be a larger income stream, the equity should be worth more (other things being equal). But if the higher income simply comes about because the firm buys another going firm, or buys more equipment to increase its capacity, then its dividend will

increase but there will be the funding costs of the expanded capacity that have to be met. Thus we need to know where the growth is coming from, and at what funding cost. Is it totally organic, falling like manna from heaven without further investment or effort (in which case this prospect will certainly add something to the share price), or is it simply expanding capacity through acquisition, with no particular reason to think that this will make the existing equity more valuable. For management, of course, growth brings greater prestige and benefits, so their keenness is understandable. But it is surprising that ‘growth’ is seen as such a desirable thing for *shareholders* as those who want to enlarge their portfolio can do so by buying more shares. If a firm already has a profitable operation, there is no advantage to shareholders in diluting this by purchasing assets with a lesser yield.

A Tentative Evaluation

In evaluating whether the superannuant is getting value-for-money from the fees, we might return to the three-way distinction among the services provided. First, there is the *distribution/advice* function. We noted above that, because of the opportunities to exploit the complex regulations of taxation, superannuation and pension entitlements, it may well be that the superannuant receives a good return on the cost of advice, from his personal standpoint. What should be noted, however, is that this is a deadweight cost on the system — not only is this advice adding nothing to the value of investments, but every extra dollar shifted to the superannuant is a dollar less for other taxpayers.

What of the *administration* aspect of the task? Seen in terms of a straightforward book-keeping function, it is hard to see why this should be expensive for the average superannuant’s account, in a world of cheap computing power. As for the *funds management* proper, we have argued above that it seems quite doubtful that, looking ahead, the *average* superannuant would get any net benefit from active funds management, and would do better to adopt a diversified asset allocation strategy, with a significant weight of indexed equities, for which routine task the funds management fee should be minimal.

If this view is correct, there would seem to be room for lower fees on all three components. If the value of the *distribution/advice* is largely in how to exploit the rules, the need is to simplify the rules so that people easily get what they are entitled to, and no-one (however much they squeeze the system) gets more. This might seem idealistic, but it is the right starting point, and should be an important policy objective. If *administration* is about computer-power, there may be set-up costs and economies of scale, but this should not be taking the large chunk of fees that it is at present. For the funds management component, the issue is whether the industry is promising something that over-all, it cannot provide, namely above-average returns for everyone.

How is the system likely to evolve (or how can it be encouraged to evolve) to give better value-for-money to superannuants? As the industry matures, competition might produce a better product. But we can observe that it was not

enough to have competition between banks to get bank home mortgage lending fees down: it was only with the arrival of an outsider with no existing profitable business (Aussie Homeloans) that the exorbitant margins for the safest lending in the books (home mortgages) came down. What will be the equivalent to Aussie? The problem here is that when you give your superannuation money to someone to manage, this is usually a very long contract which, for most people, will be a large part of their life-time wealth (especially if we exclude the family home). This is not an environment where competition will be as vigorous — or the buyers as experienced — as, say, the market for groceries, where we all know a fair amount through constant exposure to transactions. The investor may not be able to judge the institution and its performance easily or quickly — a recent ASIC (2003) survey pointed to widespread investor ignorance — it is not so easy as telling whether the produce is fresh and the counter is clean.

The role of the investment advisor is critical in this, but the position of the agents seems quite ambiguous. Just when the investor needs unbiased advice to steer through the thicket of tax, pension and superannuation regulation and (on top of that) find a funds manager who can get a good return, the investment advisors have no incentive at all to make the process simple or transparent: the more complex, the more the agent can charge. Moreover, the advisor is often on *both sides of the transaction*. The agents are usually paid by the investor, and certainly act as if it is the investor's interests that they are pursuing, but they often have special relationships and 'trailing commissions' from the supplier of the investment product. There is rarely a simple principal/agent relationship with the investor, with the agent unambiguously pursuing single-mindedly the interest of the investor. Would we trust a doctor who asked us to pay no fee for service, but received an on-going commission from a drug-supplier if we could be persuaded to undertake a long-term commitment to expensive drug treatment? (This example was suggested by the *Sydney Morning Herald*, 2 August 2003).

Will the investor be able to rely on the protection of the regulator to ensure that the investment advisor and the fund manager do a good job? ASIC's recent study suggests that most of the investment advisors are doing poorly, and this was evaluated against a quite mechanical and undemanding standard. There is little doubt that, after the experience of HIH, APRA will be readier to exercise its powers. But how far can it realistically go, given the number of super funds? The regulator will always be 'a bulldog chasing a greyhound'. How far *should* it go, given that there has to be a high degree of consumer choice, with the 'buyer beware' that goes with this? And in any case we can't have the government taking responsibility to guarantee any particular outcome for retirees, beyond the already-huge commitment of the basic pension. So we will need to reconcile two disparate forces — the need for vigorous competition to get fund management fees down to levels which are commensurate with the true value added, and the need to avoid fund management disasters which leave people (that is, voters) with big losses in their compulsory saving.

If competition has not so far fixed these problems, what might be the way forward? Perhaps the best hope here is that the popularity of the fast-growing

‘wrap-fund’ industry, which offers the service of *administering* the funds in a fairly ‘unbundled’ form. This provides the potential for market competition to turn the administrative function into a commoditised product, separated from the arcane world of fund management. This has not happened so far, with the wrap funds essentially charging much the same fees as the conventional superannuation funds. But ‘unbundling’ is often the precursor to the competitive reduction of fees, so there must be some hope for change here. If the three functions were unbundled, then the users would have a better view of whether they were getting value for money, and whether cheaper alternatives might be available.

Once unbundled, the elements might be more keenly priced. For the distribution/advice stage, the hope is that this might be provided by people who charged by the hour, as lawyers and doctors normally do. This would fit better with the idea that the superannuant needs advice at one critical stage — the shift to retirement — but not much at other times. The other element here, over time, must be a greater simplicity in the tax/pension/superannuation rules so that the opportunity for providing valuable entitlement advice is reduced: the rules should be such that people can judge for themselves what they are entitled to, and there are minimal opportunities to ‘push the system’ for personal advantage.

What about the pure funds management task? Will it become more apparent over time that funds managers cannot, in general, offer to the bulk of superannuants an above-average return, any more than we can all be above-average in intelligence or beauty? In an unbundled world, cut-price indexers may help to make this unpalatable truth better-known. And within this generality, there are still opportunities for some patient people to do well with active management.

The hope is that the current interest in fees might lead one of the big players to break ranks and come clean on what they can do, offering two broad product characteristics:

- Cheap indexing, with minimal administrative fees, based on low distribution costs
- More complex strategies where the investor is paying for some demonstrated ability to understand the dynamics of the cyclical and structural movements in financial markets, and identify ‘underlying value’, with the investor understanding that these strategies pay off over the long run, and may be ‘out of the money’ for uncomfortably long periods

Such an institution would, in its tone and publicity, be very different from the current approaches. It would be more like Warren Buffett — modest and realistic, emphasising analysis of value rather than black box wizardry. What should it do about the cycle — try to exploit it with changes in portfolio composition? Unless it could get its customers to truly focus on the medium term, it will face a lot of criticism during the bear market (note that Buffett’s Berkshire Hathaway reached its five year *low* at precisely the point where the Dow was *topping* in 2000 — and Berkshire has doubled since then).

Of course there are opportunities for ‘do it yourself’ superannuation, which by-passes fees. The problem is not just that the regulations seriously limit the flexibility to manage the funds (for example, no gearing), but the complexity of the rules. Assistant Treasurer Helen Coonan is quoted (in the *Australian Financial Review*, 24 May 2003) as saying:

If you are going to do it, you have to comply. What I think is very important is that people know there are some great complexities in trying to do it yourself... and it’s very easy to run foul of rules and regulations.

Hardly a strong encouragement for responding to excessive fees by self-management. That said, superannuation policy-makers might follow the example of the instruction-booklets for electronic gear — there is the one-page introduction that covers the requirements of most of us, and then there is the 300 page esoteric guides for those who are attracted by complexity and want to get the most out of the system.

Does the Present System Suit Superannuants?

Fees are not the only issue for superannuants. For much of the investors’ time horizon, it makes sense for them to put their retirement funds with a manager who uses theory and experience to get the best risk/return trade-off they can find. But at some stage the investment strategy needs to be re-examined to see if it suits the specific and idiosyncratic needs of the superannuant in the retirement phase, running down the assets. Are the sorts of risks faced by retirees the same as the risks the fund managers routinely address?

The first issue is composition of the portfolio. A truly risk averse retiree/investor might ask their manager to create a portfolio which mimics their *expenditure* basket. If a retiree envisages spending their remaining years living in the south of France with their feet in a bucket of champagne, then the low-risk portfolio would have a large component of French assets (and some champagne futures), as the main risk faced by this investor is that asset prices or the exchange rate will move to thwart their desired retirement. For more common mortals, the same logic might suggest a large share of accommodation in the portfolio, to match what may be the largest component of retirement expenditure (or investment in a nursing home!)

Most retirees, by accident rather than design (and without the advice of their advisers) do, in fact, go into retirement with a heavy weight of residential assets. That seems appropriate, and the missing element is the easy ability to run this down over time to maintain expenditure. The norm is that this is not run down, but passes to the next generation. This might give everyone a good feeling, but for a society struggling with the huge task of providing for retirement, this is a source of retirement funding which is not properly tapped.

Perhaps the main risk for the retiree is that they ‘live too long’ — that they run down too much of the principal component of their assets. This is one of the curious aspects of the present industry: that this legitimate concern, which lends itself ideally to spreading of this risk through insurance (with the risk handled on the basis of the reliable demographic tables) — is so poorly catered for. So-called annuities generally provide income and return of principal over a *fixed* period of time, whereas what a risk-averse superannuant needs is a product that will insure them against the danger of a longer-than-expected life. Of course such annuities are available, but they offer such unattractive returns that few use them. A Table in the Australian Financial Review of May 31 2003 seems to say that the yield on life-time annuities ranges from negative to one per cent, while the yield on a fixed-term annuity is 3.38-4.25 per cent.

Implications for the Performance of the Economy

So far our view-point has been that of the superannuant. There are counterpart question that policy-makers should address: do these charges by the superannuation industry represent good value for the community? Benefits to the individual from exploiting superannuation, taxation or pension rules are at best a zero-sum game, so associated costs are a dead-weight loss to the system.

If fund managers succeed in identifying the highest-return investments (risk-adjusted, of course) and steering funds in this direction, then there will be benefits to the economy as a whole through higher productivity and faster growth. But if many of the investment decisions are driven by tax and pension-eligibility, what does that say about resource allocation? What does the short-term focus of performance-driven funds managers do for investment optimisation? Index managers or quasi index managers (that is just about all of them) offer undifferentiated investment support to all companies in the index, without fear or favour and without regard to the company’s governance or prospects. Not only are they passive between companies, but they are also passive over the course of the cycle: they will be supporting the bull market as it reaches its cliff-hanging peak, and will be making little attempt to ‘buy cheap and sell dear’ over the course of the economic cycle. Of course there will still be some active managers who will be searching out the best investment opportunities. We have suggested above that some superannuation investments (belonging to the ‘patient’ investors) will be under the control of that relatively-small group of managers who have some ability to beat the market fairly consistently over time. As economists, we believe that most of the action happens on the margin. And of course good resource allocation comes not only from the ability to pick the right projects, but from allowing Schumpeter’s ‘cold winds of creative destruction’ to sort out bad projects swiftly (Schumpeter (1934)). The tech boom in the US might illustrate this — money was thrown at projects without much discrimination, but eventually the market sorted it out. For investors, this may be cold comfort.

Conclusion

Since compulsory superannuation first came on the scene in the 1980s, the nature of the policy debate seems to have changed. It was about the ‘big issues’ — how to provide retirement incomes in a sensible way, how to get the macro saving decisions right. To a large extent the public discussion has been taken over by the various vested interest groups (mainly the superannuation industry). The experts have been largely hired to argue the case of one or other of these interests. The dispassionate policy makers need to take over the debate again, and, as a first step, appraise where we are in the task of providing retirements income which eases the burden on the pension system, doesn’t distort the tax system too much, gives superannuants a realistic appraisal of their retirement prospects, and makes a contribution to the efficient running of the economy — getting the right amount of saving, and steering investment into the highest-return projects. This amateur contribution hasn’t much to offer on these weighty topics, but it suggests that we are still a long way from an ideal system.

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