Book reviews

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Personal Provision of Retirement Income: Meeting the Needs of Older People? Jim Stewart and Gerard Hughes, eds. Edward Elgar Publishing, 2009, ISBN 978-1-84720-927-6, 275 pages. doi:10.1017/S1474747211000011

Over the past two decades, the structure of pensions shifted from traditional defined benefit pensions to individual retirement accounts. With projections of increased aged populations in the future, many countries have reduced their traditional defined benefit 'pay as you go' public pensions and supplemented or replaced them with individual retirement accounts. This edited volume describes the individual retirement plans in nine western European countries. This book is useful because the details of these plans vary greatly across societies and their impact is unclear in 'meeting the needs of older people'. The book contains separate chapters on the country plans and issues with individual investment plans. The issues considered range from inequality, account decumulation, plan regulation, and the semantics surrounding pensions.

Several authors identify issues connected with individual retirement plans that merit noting. Bryn Davies notes that the plans in the United Kingdom are discussed as 'savings', with a positive connotation, rather than as 'promises' based on taxes, with a negative connotation. The analysis of the Swedish system of notional accounts by Stahlberg identifies a major problem as the lack of knowledge of participants despite the widespread information campaign by the Swedish pension agency. I suspect that this likely prevails in systems without widespread information campaigns and it remains to be seen what can be done to overcome lack of knowledge.

An issue raised in the book is inequality based on unequal lifetime earnings and selectivity in levels of participation and contributions when choices are made. Examples of accounts benefiting the economically well-off occur throughout the discussions of individual country plans and are highlighted by DeWitte, Roels, and Stevens in their article 'Why Current Pension Policy Helps the Rich get Richer'. The analysis by apRoberts and Concialdi raises the question of what is 'saving for retirement': purely financial assets for purchasing a retirement annuity or any form of savings that can provide retirement income? They suggest that in France paying for pensions is safer than saving for retirement and perhaps home ownership with implied rents is the safest form of retirement savings. A major issue for individual investment accounts is how to provide income during retirement. Turner provides a nice discussion identifying risks connected with retirement income generated from individual accounts including longevity risk of outliving resources, survivor risks (primarily to women), inflation risks, investment guarantees, provider fees, and provider insolvency. Turner compares the structure of plans and annuities in Sweden, the United Kingdom, and Chile, and how the different forms their annuities take cover risks.

The editors state that the book describes 'the objectives of the pension reform in these countries, the results of reforms, and how employees and other individuals have responded to opportunities' to make personal investment plans. I believe that the book accomplishes the first objective very well, with clear descriptions reviewing the scope and features of the individual retirement plans in different countries. The book also largely accomplishes the goal of documenting the extent of participation levels and account values in the plans with statistics. The chapter summaries are uneven to the extent that they review how people respond, perhaps reflecting limited data on effects of recently developed plans. A possible extension for this subject would be analysis of country specific survey data to assess participation and contribution levels in individual accounts across different segments of the population. This book provides valuable information on investment retirement accounts established in Western European countries.

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A Failure of Capitalism: The Crisis of '08 and the Descent into Depression. Richard A. Posner. Harvard University Press, 2009, ISBN 978-0-674-03514-0, 346 pages. doi:10.1017/S1474747211000023

A Failure of Capitalism is Richard A. Posner's – Adjunct Law Professor at the University of Chicago Law School and Appellate Judge (U.S. Seventh Circuit) – second most recent book (his forthcoming book is on the economics of marriage and terrorism). Richard A. Posner is amazing. He must write every day for hours and is not accustomed to being edited. Almost all of his words are posted, published, or filed: he has published 53 books; writes most of his own judicial opinions, unlike most other judges; in addition he blogs with Gary Becker, one of the leading figures of the University of Chicago economics school of thought.

This book – explaining the causes of the ongoing savage recession (I'm writing the review in Fall 2010) – is a publishing feat having been completed with astonishing speed, by February of 2009 within five months of the start of the financial meltdown. (The book is short, but it could have been shorter. Harvard University Press clearly welcomed a crash-book; at heart it is two long essays on the proper government responses to the recession and why most explanations for the crisis are wrong.)

Posner dates the crisis to the collapse of Lehman Brothers in August 2008 (Chapter Nine on 'Apportioning Blame' blames the government for letting Lehman Brothers fail) which might explain the book's panicked tone – 'I do not know when the recovery from this depression will begin' – and he acknowledges the gravitas of a runaway recession: 'Had it not been for the Great Depression Hitler would not have become chancellor of Germany'.

Though pension funds and DC funds constitute about 40% of assets under management of U.S. asset managers, unfortunately, Posner ignores their role. Institutional investors and pension fund behavior matter. Most regulators and commentators focus on the, admittedly fascinating, supply of exotic financial products that were under-regulated and implicated in the crash: CDOS, swaps, NINJA Loans. But his focus has a cost. It ignores the source of demand for what would become 'toxic assets'.

Much of the demand for these financial products came from institutional investors, as well as banks. Alicia Munnell's prophetic argument, in the late 1990s, placed blame on pension practices for fueling a stock market bubble. This was her argument: excessively high assumptions about rates of return to DB plan contributions reduced corporate contributions, which increased profits, which inflated stock prices, which encouraged high rate of return actuarial assumptions.

I, and others, have argued that workers' attraction to 401(k) plans was also fueled by advice that stock prices would remain high so that employers could substitute 401(k)plans for DB plans without worker protest or demand for higher pay or better working conditions. This substitution also reduced total company pension contributions even further, which in turn