Historia de la Reforma Previsional Chilena: Una Experiencia Exitosa de Política Pública en Democracia. Alberto Arenas de Mesa. International Labour Office, 2010, ISBN 978-92-2-323258, 139 pages. doi:10.1017/S1474747211000278

Since its return to democracy from almost two decades of brutal military dictatorship, Chile has been a model of institutional and economic development. Now a member of the Organization for Economic Cooperation and Development (OECD) club of prosperous countries, Chile has consistently led by example in a wide range of areas critical to economic growth and social welfare, including macroeconomic stability, public financial management, good governance and social security reform in the face of population aging and globalization. For researchers and policy makers interested in pensions, this book's coverage of Chile's pioneering introduction of funded individual retirement accounts in 1981, and the wave of structural pension reforms that swept over Latin America and Central Europe in the 1990s, will be of enormous interest. And for those that have followed the development of the Chilean pension system closely – examined its strengths and scrutinized its weaknesses – it is a real treat to read.

In a concise volume, Arenas de Mesa presents an expert account of the problems that motivated the pension reform passed in 2008; the unique (for an upper middle-income country) manner in which public consensus was built around the objectives and basic parameters of the reform; the difficult negotiations required to navigate reform legislation through Chile's Congress; and the challenges of implementation that were made greater by the onset of the global financial crisis and economic downturn.

The book is structured in nine chapters. Following a short introductory chapter that outlines the main motivations and accomplishments of the 2008 reform, Chapter II covers the development of pensions policy in Chile, spanning a period starting before the structural reform in 1980 to the final days of the Lagos administration, when whispers grew loudest that major changes to pensions would be at the top of the next government's list of priorities. Chapter III covers the events that firmly nailed pension reform as a key electoral plank in the 2005 Presidential Campaign, and raised it in importance to the very top of the agenda of the Bachelet Administration that took power in March 2006. Chapters IV and V are an insider's account of the process by which the diagnostic report and legislative package that underpinned the 2008 reform were formulated, from the formation and workings of the Presidential Advisory Council that – after weeks of hearing expert testimony, reviewing evidence, and sitting in deliberation – set the general parameters of the reform, to the Ministerial Committee that translated the Council's work into a detailed bill of law. Chapter VI gives a privileged account of the legislative process that culminated with passage of the reform in January 2008. It covers the difficult negotiations between coalition partners sitting on key congressional committees, strategies to out-maneuver opponents of reform, confrontations with powerful stakeholders, and insight into the priorities of the reform's champions – which parts of the bill they were willing to sacrifice and which were vital both politically and for the viability of the pension system. Chapter VII is the most technically detailed and will be of greatest interest to pension professionals, describing the changes to the pension system brought by the 2008 reform. Chapter VIII describes how the Government surmounted the challenges of putting these changes into practice in a very short time, and Chapter IX closes by drawing lessons for future formulation of public policy in Chile and in other functioning plural democracies.

Not surprisingly, given its authorship, the book's greatest strength lies in the perspective from which it presents the failures of Chile's pension system – low effective coverage and high administrative costs – that left many facing the prospect of inadequate retirement income and motivated the 2008 reform, and the process that was put in place to ensure that the proverbial 'baby' was not thrown out with the 'bathwater'. As a scholar of social security and a key technocrat in the succession of centre-left coalition governments that presided over Chile's last

20 years of democracy, Arenas de Mesa has seen and experienced first-hand and had a direct role in shaping many of the events leading to the 2008 reform. The reader is treated to a generous offering of interesting facts and anecdotes drawn from this experience that they are unlikely to get elsewhere. For this alone, the book is worth reading.

This said, there are several ways in which the book falls short of expectations, misses important facts, and repeatedly and unnecessarily oversells the 2008 reform, which stands boldly on its own merit.

First, although the author warns his readers in the acknowledgments section that this is a '… book of political economy and not a text for economists', the absence of a methodological framework that would have helped to organize what is at times purely an account of events is sorely missed. Second, very little quantitative evidence is brought to bear to help illustrate why the 2008 reform was so necessary. This is a curious omission given the author's own important role in bringing much of this evidence to light (which is made plain in the bibliography). While one sympathises with the desire to write a short book that is accessible to a wide readership, and the author refers readers to other sources, the lack of quantification is a missed opportunity: after all, even the print and online media are adept at illustrating important points with compelling statistics. And even if lay readers are relieved that only two tables of statistics are included in the text (both in Chapter VII, on coverage and the fiscal cost implications of the reform, respectively), they may be disappointed by the lack of rigor in the analysis of stakeholders, strategies, costs and benefits that is usually applied in political economy and even historical analysis to draw insights from mere facts.

There is also a curious lack of space in the book devoted to the substantial power the pension fund management industry had gained in Chile that continued to grow even after the return to democracy. Too little is said about how the industry exercised this power through a variety of institutional channels to effectively prevent any attempt to reform the pension system from gaining momentum prior to 2006. For example, no mention is made of the Herculean battle between the Government and industry through Chile's courts to compel the fund managers to provide the industry regulator with affiliates' contribution histories, so that key diagnostic statistics, such as contribution density, could be used to monitor the system's performance. The industry's resistance was one of the circumstances that made the new *Encuesta de Previsión Social* (EPS) survey necessary. The author alludes to the political environment that made even the blandest critique of the *Administradoras de Fondos de Pensiones* (AFP) system 'a heresy' throughout the 1990s and even well into the past decade, but fails to follow through with a more detailed explanation of how this threat became so great.

Finally, the informed reader will likely conclude that the author's assertion that the 2008 reform is 'structural' and that it signifies a 'return of the State to an active role' in pension provision, is overstated, unconvincing and partisan in an otherwise well-balanced narrative. The State never relinquished a role in organizing old age income security, although that role changed fundamentally in 1980 from direct provider of a poverty-prevention and income-smoothing plan, to provider of just poverty prevention, and regulator of income smoothing. The mandate to save for retirement and the ration on people's consumption and savings decisions was, on its own, a powerful manifestation of the State that remains even after the reform. This was just one of the ways the State remained deeply involved, which makes assertions of its 'return' in 2008 sound strange. Similarly, the 2008 reform does not quite qualify as 'structural' in the same way as the 1980 pension reform, the introduction of contributory unemployment insurance in 2002, and the guaranteed basic package of health coverage shortly thereafter. In each of these cases, the structures for financing and providing coverage were fundamentally altered and the risks borne by the individual, the employer and the State were shifted. Contrary to the author's assertions, the 2008 reform – although critically important, and a remarkable achievement – was parametric, not structural. The reform did not really alter the fundamental nature of how old age income security is organized in Chile. The biggest change in the 2008 reform is the introduction of a more explicit institutionalized 'solidarity pillar' that in essence bridges the gap between the pre-2008 non-contributory cash transfer to the poorest elderly (PASIS) and a contributory supplement to pensions from individual accounts that fell below a minimum threshold (the minimum pension guarantee), with a new, more generous form of income protection. But the financing and relative distribution of risks related to adequate income in old age remain unchanged, although the risk of poverty in old age has been greatly diminished. Indeed, it is this degree of consistency that is the most remarkable achievement of the Bachelet Administration in remedying the failures of a system that was controversially and regrettably imposed by a dictatorship. The 2008 reform demonstrates once again the political consensus around respect of institutions and equitable economic development of which Chileans can continue to be proud.

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Reforming Pensions: Principles and Policy Choices. Nicholas Barr and Peter Diamond. Oxford University Press, 2008, ISBN 978-0-19-531130-3, 352 pages. doi:10.1017/S1474747211000400

This book consists of two distinct parts. The first part of the book sets out the basic analytical principles behind pension policy. The second part applies these principles to actual pension reforms around the world with specific attention to Chile and China.

One of the main messages of the book is that there is no unambiguously best design of a pension system. Each country should develop its own pension system based on the weights it attaches to the primary objectives of pension systems, which the book identifies as intertemporal consumption smoothing, insurance, poverty relief and redistribution. Also relevant are a country's specific circumstances, such as saving and employment patterns as well as family structures. Barr and Diamond argue that a country faces a wider range of choices about its pension structures when its administrative, institutional and fiscal capacities expand. In particular, individual funded accounts should be introduced only if a country can properly regulate financial and insurance markets.

Whereas developed countries can feature a wide range of good pension systems, some pension designs are unambiguously bad. The authors identify the following main flaws in pension designs: poor coverage of the workforce in mandatory systems; excessive choice in mandatory systems giving rise to complexity and substantial marketing and administrative costs; corporate defined-benefit plans that are exposed to bankruptcy risk of the sponsoring firms; final-pay schemes that base pension benefits on pay just before retirement; nominal annuities that are vulnerable to inflation; the absence of actuarial adjustments for delayed retirement resulting in high implicit tax rates on work; the existence of mandatory retirement ages; a low earliest eligibility age for retirement benefits that does not rise in line with the age for full benefits; and lack of automatic adjustment of normal retirement ages to long-term trends such as increasing longevity. Indeed, the book argues that the pension crisis in many countries originates in the static designs of defined-benefit systems that do not automatically adjust to long-term demographic trends, in general, and increased longevity, in particular.

The style is accessible and non-technical. Concepts are explained verbally with minimal use of algebra. It starts from a few basic principles that are returned to frequently. This repetition serves an important educational role. An important principle is that one should consider the pension and tax and transfer systems as a whole. To illustrate, making the pension system actuarially neutral does not necessarily enhance efficiency if the task of redistribution is moved towards a more distortionary tax- and transfer system. Another key principle is that pension designs should take account of the second-best nature of economies. In particular, markets are highly imperfect due to all kinds of information problems. Moreover, people have a hard time making rational pension choices because of limited willpower and information processing