

Beyond this wonderful normative vision, there are, inevitably, a few questions, most of which concern the practical aspects of reform in the capitalist system. Without burdening the reader with a long dissertation, there are two basic issues. One has to do with history and the other has to do with the future. On the historical front, we must ask whether there really was ever a golden age of capitalism, or investing, or mutual fund management, where shareholder interests were truly or at least better aligned with those of managers. The book itself cites Berle and Means and other classics from the dawn of the recognition of the principal-agent problem in capitalism. And yet it gives little or no thought to insights that could be drawn from Grant McConnell (*Private Power and American Democracy*), Joseph Schumpeter (the idea of creative destruction in *Capitalism, Socialism, and Democracy*) and even Marx himself, all of which, in very different ways, suggest that many of the problems Bogle cites are structural or even foundational in the sense that they are fundamental systemic dysfunctions that can be temporarily ameliorated but not necessarily stamped out.

But what about the future? Could Bogle's vision of democratic capitalism emerge if we just have the will and are able to find a way? The guess is, despite the existence of institutions such as the SEC, Vanguard, and perhaps even TIAA-CREF, shareholder rights advocates, and the recent groundswell of reform in the investment world, that our capitalist and democratic systems are porous and malleable enough that we can expect only limited success. One way to view the rise of the hedge fund industry, with over 7000 funds and several trillion dollars under management, and the private equity sector, which now seems awash in cash, is that they represent an effort by managers to opt out of many of the oversight mechanisms that already exist in the corporate, investment, and mutual fund worlds. If these two areas are indicative, the promise of steadier returns for shareholders built on the premise of increased compensation for the managers makes it hard to believe that the capitalist system is or could be pushed along a unidirectional reform pathway. Instead, it is possible that reforms in one area will continue to beget new opportunities for investors that mitigate those very reforms. The attractiveness of possible future investment outperformance is hard to resist.

So the strength of this book is not that it tells us how reform will occur or how much reform we can expect, but rather what we should beware of and aspire to. Investors should be skeptical of companies as well as investment managers where incentives are misaligned with those of shareholders. And we should all support efforts to improve transparency and oversight. But we should not expect that we can establish a new golden age of capitalism or return to the old one that never was.

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Annuities and Mutual Funds: What Every Investor Needs to Know but Hasn't Been Told. James McClelland. AuthorHouse, 2005, ISBN 1-4208-5929-3, 144 pages. doi:10.1017/S1474747207003204

Annuities and mutual funds have long been the purview of retirement experts. The “diversification” advantage of mutual funds and the “guarantee” and “tax-deferral” features of annuities have attracted many investors, and as a result, both have experienced growth in the past decades. However, as popular as they are, are they really such a great deal for every investor? What should the investor know, to compare these two products? Due to the complexity of the products and pension participants' limited financial sophistication, additional information is required. Accordingly, McClelland's book meets the need to equip ordinary investors with “a general working knowledge of annuities and mutual funds,” which includes a careful and easy-to-understand description of these two products, factors to consider when making investment decisions, and sales strategies that

investors should be aware of. Without a doubt, the author provide unique insights into both the mutual fund and annuities market.

The first section of the book offers general investment ideas. The author suggests that a diversified stock portfolio is the second best investment choice after real estate, and he argues that stocks are “on sale” now so represent good value. Next the book moves on to mutual funds, including their history, main features and types, and taxation. Most importantly, it reminds the reader that mutual fund fees should be a key aspect to consider when investing. While such fees clearly matter a lot, they are often overlooked or misunderstood by the common investor.

Subsequent material focuses on annuities, mainly deferred annuities and especially variable annuities (VA). The author suggests that only certain variable annuities are good investment choices for certain investors. For example, those who seek to guarantee a wealth level for their beneficiaries will prefer the variable annuity with a death benefit feature. For risk preferrers who will not select VAs as the primary source of retirement income in retirement, however, and who will not want to give up control of investment by annuitizing VAs later, the author argues that variable annuities with living benefit feature and thus high fees attached are not a good choice. A brief description of fixed annuities and index annuities follows. As an ordinary investor, I would find useful a more detailed description about what current annuity markets have to offer.

McClelland succeeds in helping common investors better understand the mutual fund marketplace as well as annuities. Yet the book does not give a completely comprehensive perspective, as it does not take into account other investment opportunities, the need for investors to use financial vehicles to hedge specific risks, restrictions associated with certain retirement saving accounts, and so forth. In some cases, a choice judged to be “bad” when considered in an isolated circumstance might actually be “good” if the investor’s entire portfolio is taken into account along with personal preferences.

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Developing Annuities Markets: The Experience of Chile. Roberto Rocha and Craig Thorburn. The World Bank, 2006, ISBN 0-8213-6666-1, 288 pages.
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This book focuses on the pension experiences of Chile, a country that pioneered radical reform of its pension system in the early 1980s. The growth and development of this mandatory defined contribution pension system has, in turn, spurred the development of one of the most important annuities markets in the world.

This analysis of the developing annuities market includes five core chapters plus an introduction, a conclusion, and three annexes which provide most of the technical content. The first core chapter describes the Chilean market for retirement products, which, in addition to annuities, includes phased withdrawal and temporary withdrawal plans. This chapter also presents results of econometric studies of the performance of the annuities market from both consumer and provider sides. The second core chapter provides a rather general overview of risks faced by key stakeholders in the annuities market (i.e. workers, pensioners, providers and the government). A third core chapter describes the major risks faced by providers, particularly life insurance companies underwriting annuities. In the fourth core chapter, more detail is provided regarding the menu of retirement products. Finally, the fifth core chapter deals with the regulation of market participants with emphasis on solvency rules for annuity providers.