Several chapters take up proposals for pension reform. Diametrically opposite ideas about the function of pensions are offered by Theodore Groom and John Shoven, on the one hand, and Daniel Halperin and Alicia Munnell on the other. Not surprisingly, they arrive at diametrically opposite conclusions about desirable directions for pension reform. Groom and Shoven take the view that the tax system should be neutral between current consumption and future consumption. In this framework, the tax preferences given to pensions are not really preferences at all, but rather the taxes imposed on non-pension saving are penalties and presumably should be eliminated. With regard to pensions, they believe most of the regulations should be scrapped, including top-heavy rules, limitations on funding, limitations on contributions and benefits, and so on. Halperin and Munnell, in contrast, think that pensions do not contribute much to national saving nor do they benefit the lower tiers of the income distribution much. Accordingly, as pensions are currently formulated, they are deemed not worthy of the substantial tax benefits given to them, and they argue that additional tax benefits for retirement saving should buy increased retirement income for low and middle income workers.

Pamela Perun and Eugene Steuerle look at defined contribution plans where participants elect their investments, so the pension in their model would simply become a facilitator to move the funds to the chosen asset mix. Under current law, however, the pension plan has fiduciary responsibility, and if some of the choices go bad, the plan sponsor may be held responsible for offering these choices. The authors note that this scenario presents an especially attractive target for class action lawyers (many similarly-situated plaintiffs and large dollar losses). If such a class action case were to succeed, they argue, defined contribution plans and 401(k) plans in particular would become much less attractive, particularly to smaller employers. To avoid this, they argue that the legal environment of the plans must be changed to resemble Individual Retirement Accounts (where the employer bears no fiduciary responsibility beyond conveying the funds from the employee to the fund). Of course, while a successful class action suit would be unsettling, it is unclear that it would lead to a wholesale abandonment of plans as the authors fear, given the tax advantages of the plans. What it might induce is a move away from offering high cost and/or actively managed and risky funds, and toward low cost index-type funds, which it would be much harder to argue are inappropriate.

This book is a very good and (for the most part) non-technical discussion of the general issues surrounding pensions. The list of contributors reads like a who's who of pension experts. Schieber's chapter does a wonderful job of providing insight into the historical context of pensions. The two chapters on comprehensive pension reform allow sharply differing viewpoints to be stated clearly, and they highlight the complexity of the issues. It is a credit to the editors that they were able to present such diverse viewpoints in a single volume. It would have been useful if the editors had been able to accomplish a similar thing regarding the topic of whether pensions are net saving. Although Gale mentions that some believe pensions are net saving, he is clearly on the other side of this issue. This is a relatively minor quibble, though, in a volume that does an admirable job of conveying the essential facts, debates, and issues for pensions and pension reform.

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The Battle for the Soul of Capitalism. John C. Bogle. Yale University Press, 2005, ISBN 0-300-10990-3, 288 pages. doi:10.1017/S1474747207003198

John Bogle has devoted most of his adult life to helping individuals and institutions achieve long-term investment goals through thoughtful, forceful writing and speaking about mutual funds. Of course, he is perhaps even better known for building Vanguard, the company that embodies insights such as: (1) low expenses are the most important controllable determinant of relative returns, (2) on average, index funds perform better than more expensive actively managed funds, and (3) mutual fund providers that are owned by and hence aligned with their fundholders are more likely to emphasize points 1 and 2.

These principles were initially expressed in Bogle's earlier best-selling book, which reminded readers experiencing stock market euphoria of the 1990s that in the long-term markets correct. In this new volume, the author goes beyond mutual fund investing to examine the entire capitalist enterprise, with sections on "Corporate America," "Investment America," and "Mutual Fund America." In each of these areas, the author sees dysfunction and inefficiency caused by classic agency problems best described by what he sees as a shift from an "ownership society" to an "intermediation society." Here, intermediating public and private institutions, as well as some powerful individuals, assume an ever-increasing role in corporate governance and investment decisionmaking, at the expense of individual stock and mutual fund shareholders.

Bogle proposes that American regulators, rating agencies, legislators, attorneys, accountants and, most of all, corporate directors, have exercised an insufficient breadth and depth of independent thought and action when it comes to exploding executive compensation, improperly "managed" earnings, and accounting shenanigans. He focuses on the transition within financial institutions from a long-term stock ownership perspective, to a short-term speculative perspective, where corporate governance problems are of little interest to intermediaries that essentially "rent-a-stock" instead of "own-a-stock." And he reminds us of the shift among mutual fund providers from "stewardship" to "salesmanship" as the dominant mode of behavior.

The result of these changes is the disenfranchisement of the single security and mutual fund shareholder in favor of the mutual fund, investment, and corporate managers, who seem to be reaping a large portion of the benefits of the capitalist system. Bogle points out, for example, that over 20 percent of the gross annual returns to securities markets are garnered by investment managers, leaving only 80 percent to the actual share or mutual fund holders. He also reminds us of the many corporate accounting and investment scandals that indirectly and directly hurt shareholders and could do so again even after Sarbanes Oxley and other corporate and investment reforms.

So what does Mr. Bogle propose to deal with the principal-agent problems in the capitalist system? His nostrums range widely but they boil down to some simple and admirable precepts. First, he argues for the establishment of a true corporate democracy of, by, and for the shareholders. He advocates reforms that will force institutional investors to take responsibility for the shares they own themselves or on behalf of others. He would also make it easier for individual as well as institutional shareholders to propose and elect corporate directors, as well as vote directly on a wide range of other matters, such as executive compensation, mergers and acquisitions, dividend policy, and anti-takeover measures. He calls for accounting, stock option, compensation, and an attitudinal transformation on the part of shareholders, directors, and regulators. And he would support reforms that increase information needed by these actors to fairly assess corporate and investment practices.

In perhaps the most detailed and carefully reasoned portion of the book, Bogle passionately advocates a return to the original concept of the mutual fund: a vehicle for individual investors to gain access to securities markets and to earn long-term returns. With that in mind, he both urges and predicts an emerging reemphasis on mutual fund cost control, transparency, broad market exposure as opposed to stock picking, and mutual fund governance that supports the shareholder rather than the manager.

These thoughts and many more that cannot be detailed in this short space are admirable and even enviable goals. In fact, there are signs that some reforms have been effective, while there is still much work to do. So this book should be read as an aspirational guide to what could and should be. In that sense, investment agents should be thinking of ways to be the first on the block to offer up products and investments that exemplify Bogle's vision for capitalism.

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