easy-to-follow pathway into the economics of pensions, along with a challenge to take close stock of assumptions. For this reason, both newcomers and specialists will find it worth their time to read this book.

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Demography and Financial Markets. Edited by Christopher Kent, Anna Park, and Daniel Rees. Reserve Bank of Australia, 2006, ISBN 0-9752213-9-6, 407 pages. doi:10.1017/S1474747207003022

Ultimately, the answer to many of the questions posed in this new book is "we don't know". Will the movement of the baby boomers from savers to spending retirees lead to an asset price melt down? We don't know. Is the life cycle hypothesis a valid representation of household lifetime saving-consumption patterns, and can we extrapolate the model to broader economies? We don't know. What impact will China and the rest of the developing world have on asset prices and welfare in the wealthier, and more mature, developed world? We don't know. Nevertheless, these questions and others explored in this volume make interesting and thought-provoking reading, as we look forward to a world with an aging population and wonder what impact this demographic shift will have on welfare, capital markets, and institutions.

The chapters and discussion appearing in this volume were presented at the Sydney, Australia G-20 meetings, sponsored by the Australian Treasury and the Reserve Bank of Australia. Of particular interest is the potential impact of several factors for macroeconomic and asset pricing dynamics in the 21st century. The opening chapter on Global Demography gives the lay of the land and projects world demographic profiles; next Henning Bohn explores the impact of model set-up on capital formation and return on capital invested. His lifecycle-based overlapping generations model (OLG) framework shows a pattern of rising capital to labor as the baby bulge leaves the work force, yielding increasing capital to labor ratios and subsequently lower returns to capital. This is contrasted to a dynastic model where agents have a strong bequest motive; there, the endowment effect created by bequests substantially reduces saving, yielding more stable capital-output ratios and returns to capital that vary little as populations age. Clearly these are dramatically different pictures for the reader contemplating long horizon investment decisions. While there are empirical questions regarding the strength of bequest motives, these may still have a noticeable impact in economies with less well-developed financial architectures.

Savings patterns similar to those predicted from a dynastic model are offered by Axel Borsch-Supan with his modeling of mature OECD economies, but here he notes that pay-as-you-go (PAYGO) social insurance systems are the culprit. Redistribution from young to old in these systems produces similar aggregate capital-labor behavior to the endowment effect. In the author's view, these behaviors are unsustainable, so he calls for system-wide reform; in addition, he urges greater reliance on international capital flows to spread capital across a wider potential labor base, with the goal of reducing capital-labor pressures. This model and those of others indicate that a good portion of current account deficits and surpluses can be explained by relative demographic behavior with unrestricted international capital flows. The work by Ralph Bryant explores implications for currency markets. Given the political rhetoric associated with current account balances and currency manipulation, those in the political realm should explore these themes further.

One country that has drawn substantial attention due to its growth and increased prominence in American markets and fiscal affairs is China. In a chapter cleverly titled "Will China eat our lunch or take us to dinner?" Lawrence Kotlikoff and colleagues explore China's role in an

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inter-dependent dynamic, multi-economy OLG model. Their results are highly sensitive to assumptions on the Chinese economy and Chinese households going forward (p. 170):

If successive cohorts of Chinese continue to save like current cohorts, if the Chinese government can restrain growth in expenditures and if Chinese technology and education levels ultimately catch up with those of the West and Japan, the model's long run looks much brighter.

Lots of "ifs"! Given the relatively recent emergence of China onto the world economic stage, it is difficult to forecast key model parameters for a decade with any certainty, let alone a century. Under best guesses, the promise of China as "the world's saver" and a catalyst to further global growth is great. But how important it will be, we just don't know. It is likely worthy of some tolerance in global financial policy discussions.

Other chapters explore the impact of demographics on financial systems and financial product innovation. E. Philip Davis draws a strong connection between funded pension systems and developed equity and bond markets, and he shows that a rise in the relative size of the 40–65 age cohort is good for equity markets, whereas growth of the 65+ age is relatively beneficial for bonds. The combinations of demographic changes with global accounting and regulatory convergence should accelerate the deepening of market-based funding systems over banking-based systems. Several commentators call for further developments in very long maturity fixed income products and annuity markets, yet thus far there is little indication of what the catalyst may be that can accelerate developments in these markets, if investors are not clamoring for these products already.

Does the book provide any magic answers or epiphanies as to what the financial world will look like a decade or more in the future? No, at least not with any real degree of certainty. But what it does provide is a host of questions and puzzles that will keep academics, market practitioners, and policymakers busy and intellectually engaged for decades to come.

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Social Security and the Stock Market – How the Pursuit of Market Magic Shapes the System. By Alicia H. Munnell and Steven A. Sass. W. E. Upjohn Institute for Employment Research, 2006, ISBN 0-88099-290-5, 171 pages.
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This book provides an almost overly concise account of the evolution of public and "occupational" pensions in the US, the UK, Canada and Australia, with references to some other countries. Informed and with remarkable precision, in view of their sweeping strokes, the authors portray the context and entire history of these pension plans. Their focus, however, is only on developments since about 1980. The primary theme of the presentation is how a quartet of Anglo-Saxon countries have dealt with the financial stress put on both public and occupational private pension by current trends, chiefly demographic aging. According to the authors, political and possibly also popular resistance to continually higher taxes – or "contributions," as some Europeans might prefer to call them – coupled with unwillingness to cut benefits further, has led all four nations to turn to the stock market to relieve the financial burden on their pension systems. To avoid having to choose among the three unpalatable alternatives of increasing taxes, reducing benefits and/or raising the retirement age, governments have thus resorted to a fourth option. The authors find that the attractiveness of this

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