

### *Securing Social Security and Retirement*

In my view, this section should be sung to the tune of “Eve of Destruction” (Barry McGuire). While Ghilarducci believes that the US Social Security system has been “stunningly successful”, others see that the system is effectively bankrupt and many Gen X and Y’ers believe its costs are excessive given their negative rates of return. There is a better solution, in my view, which would have every American make her own choice on how to fill the entitlement funding gap. And we must do this soon, if only by default, because, we are on the eve of retirement destruction.

### *Guaranteed Returns*

My theme song for this section is “The Worst That Could Happen” (Johnny Maestro and the Brooklyn Bridge). This is because Ghilarducci proposes that the government provide a guaranteed rate of return for the mandatory pensions described above. In my view, this raises the specter of a new entitlement bringing with it, new risk. In other words, the worst that could happen would be new taxes and/or contributions to make up for shortfalls in the guaranteed investment returns. The government can only reallocate existing wealth and risk in the case of retirement wellbeing, and her guarantee idea would significantly shift risk among current and future generations, without acknowledging the cost. Guarantees are expensive; particularly new government entitlements. Others have shown a 3% guaranteed return may have been feasible in the recent past, but the past is no predictor of the future so any prospective guarantee would be very, very expensive. The author does not do a cost-benefit analysis to prove advantage from a government-backed guarantee.

JACK TOWARNICKY\*  
*Benefits Professional*

*The Rise of Mutual Funds: An Insider’s View*. Matthew Fink. Oxford University Press, 2008, ISBN 978-0-19533-645-0, 320 pages. doi:10.1017/S1474747210000120

Many economic philosophers have proposed that the masses must somehow own the means of production, so that wealth is not concentrated in the hands of a few oligarchs. The failures of most schemes to implement such societal ownership are well known and widely derided. In this small but very readable volume, Matthew Fink has admirably documented the birth, development, and maturity of the only reasonably successful realization of these philosophical dreams. Having spent his career in the mutual fund industry’s national association (and from 1991–2004 as president), the author is uniquely qualified to chronicle that realization. While he calls it a personal narrative, it is in fact far more: a primer for those unfamiliar with the rise of mutual funds that now control over \$11 trillion in assets for their shareholders, and a grand overview for those (such as this reviewer) who are involved in the governance and operation of this practical implementation of an originally “socialist” idea.

Mutual funds grew out of the British pooled investment trusts, as Fink concisely summarizes. In the US, the mutual fund industry was launched with the invention in 1924 of Massachusetts “open-end business trusts” by founders of the State Street and Putnam organizations. There were false starts, blind alleys, and serious failures, many of which are summarized admirably, as well as the development of Federal statutes regulating the securities

\* The comments expressed above are my own and do not necessarily reflect those of any employer, past, present or future, nor those of any group or organization with which I am affiliated, past, present, or future.

industry and culminating with Fink's enlightening and at times amusing relation of the development of the Investment Company Act of 1940. That Act – the capstone of the Federal regulatory scheme – came last, befitting mutual funds' position as “investments in investments”; it also was naturally opposed by certain groups that always seemed to disfavor regulation. Fink then shows how the industry embraced regulation and sensible safeguards in the 1940s that paved the way for growth. It is hard to believe that in 1970 (the year of significant amendments to the “1940 Act” increasing that regulation), mutual fund assets were only \$18 billion.

How the industry survived the 1970's bear market is one of the author's major foci. Fink relates how the rise of money market and tax exempt bond funds enabled the industry to give cleverly-designed and profitable alternatives to equity funds, enabling ordinary people to hold wealth. Mutual funds also saw that their products were uniquely suited to accumulating retirement savings to supplement social security, and Fink was in the vanguard (pardon the double entendre) of developing saving vehicles through Individual Retirement Accounts, Keoghs, and 401(k) plans. He documents this more thoroughly than other parts of his narrative, as well as the travails of funds in the late 1990s.

The fine sweep of this little history is worth a place on the bedside reading stand, not only of industry specialists but also of students of economic philosophy. This is because the author shows how clever people converted the vague dreams of economic philosophers into reality, not by revolution but by evolution – as the English Fabian Socialists of the late 19<sup>th</sup> century had advocated (deriving their name from the Roman General Fabius who advocated pursuing incremental battlefield successes). Financiers, whom one philosopher predicted would sell the rope by which they would be hung, crafted a means for ordinary people to own a reasonable part of the means of production and wealth. Karl Marx would be astonished and the English Fabian Socialists would be amused at this excellent chronicle.

DONALD C. WILLEKE

*Consultant and Trustee, Wells Fargo Advantage Funds*