impact the fair value of different claimants, and they illustrate that changes in indexation arrangements and in asset mix have a very marked effect on the value of the claims of different parties.

Keith Ambachtsheer addresses the design of pension funds through asking a number of fundamental questions, starting from how one can best deliver adequate post-retirement income streams. He concludes that pension funds exist to pool longevity risk and to provide low risk inflation-protected long term cash flow streams. He appears to share the view that these cannot be provided by the capital markets, and he sees future generations of employers and employees as natural providers. He argues that existing pension structures fail to meet the requirements of providing adequate pensions with acceptable levels of risk in an effective and transparent fashion.

A. Foley, Andrei Serjantov and R. Smith take the concept of fair value and use it to drive a philosophy of pension fund asset allocation, where the objective is assumed to be the maximization of the expected utility of the surplus in the fund. While this objective has a certain appealing simplicity, making it possible to transpose the extensive literature on strategic asset allocation to pension fund management, it does seem a large and brave step to take. It ignores the difficult issue that is central to defined benefit pension plans: the diversity of interests of different classes of stakeholder and the pooling of their interests. Young workers, older workers, those with deferred pensions, those receiving pensions, shareholders in the sponsoring company and lenders to it all have different interests. It is not easy to see how these can be adequately summarized in a single utility function.

The issues raised in this book are important, indeed, central to the debate about the way forward for occupational pensions. While there is undoubted value in different perspectives on the issues, the book ultimately lacks coherence, as issues are not tackled in a structured way. Authors frequently disagree on important issues, such as whether pension funds add significant value by completing the market, or whether markets are substantially complete and pension funds can at best minimize the extent to which they destroy value; yet they do so in passing and opposing views are not confronted. When the fair value philosophy goes beyond the claim that pension fund solvency should be properly measured and made public, it needs to directly confront the question of the economic function of pension funds. Only in doing so will the answers drive investment policy, contribution policy, and the appropriate use of surplus.

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Social Security Reform: Financial and Political Issues in International Perspective. By Robin Brooks and Assaf Razin. Cambridge University Press, 2005, ISBN 0-521-84495-9, 375 pages, Price $82.00. doi:10.1017/S1474747206282842

This volume is a valuable collection of essays on population aging and its financial, social, and political implications. The essays are authored by some of the foremost experts in the field, providing sophisticated research techniques as well as a well-rounded international perspective on the debate over social security reform.

The book is well organized, providing arguments that are both cohesive and highly readable. In the first portion of the book, the authors ask "who will bear the burden of aging Baby Boomers?" and address the topic with contrasting essays. One takes an economic approach, focusing on the US, Europe, and Japan, while another addresses political influences in its analysis of the US political economy. The work by Laibson and co-authors offers a hyperbolic discounting model to explain myopic behavior among consumers, particularly low saving rates during youth and shortfalls in retirement. Lucas notes that although investment in equities may

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be motivated by the prospect of higher returns, benefits may fade when returns are properly adjusted for risk. Most chapters emphasize developing markets, with comparisons drawn between pension systems in East Asia and the developed world. Because of the contrasting viewpoints of the different essays, often conclusions are ambiguous.

Many pundits have argued that the aging Baby Boom will drive a "market meltdown," defined as a sharp decline in stock prices as this cohort sells off its assets during retirement. Several chapters speak to the impact of population aging on financial markets, including one by Poterba who argues against the meltdown hypothesis based on empirical data analysis. Abel argues otherwise with an overlapping-generations theoretical model. Brooks extends the overlapping generations approach to include international capital flows, and he also finds that Boomers will earn lower returns compared to historic trends. These contrasting results may be attributed to modelling differences and the lack of historical evidence; as Poterba notes, there has only been one Baby Boom.

A final section asks whether proposed reforms may be politically viable. The study by Razin *et al.* uses a political economy framework to show that population aging boosts pressure to reform pay-as-you-go systems, with a preference for individual retirement accounts. Another draws on public opinion surveys in Germany and Italy, countries that that have experienced public pension reform. The case study of the German "Riester reform" provides a useful insight into the uphill battle faced by governments in educating the public about the need for and the benefit of pension reform. A useful inclusion would have been to discuss public policy solutions other than social security reform, for instance the possible role for government in developing insurance markets to manage longevity risk.

It is of interest that G-20 meetings for the past few years have all had demographic trends on the agenda, and the 2006 meeting hosted by Australia directly focuses on how population aging influences financial markets. This book informs that discussion with its comprehensive treatment of many issues regarding Social Security reform and would be a valuable read for both academics and policy makers. In all, the book is a timely addition to the literature and a well-rounded compendium of sophisticated simulation models, behavioral studies, theoretical analysis, and evidence on public pension reforms.

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Rational Thinking and the Raw Nerve of Pension Fund Politics. By Jon Entine. The AEI Press, 2005, ISBN 084474218-X, 112 pages, Price $15.00.
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With some trepidation I accepted the invitation to review this book, as Jon Entine has developed a reputation for criticism of corporate social responsibility and social investment. Nevertheless, when I met him many years ago, I was struck by the preciseness of his concerns and well-deserved rattling regarding a particular company. Good critiques are essential to the continual improvement of everything humans do. Unfortunately, this collection of essays is a disappointment on several counts. First, the contributors have failed to describe the major trends in Socially Responsible Investment (SRI) or to address the fundamental reasons why this approach to investment keeps growing. Second, the reactionary tone of the contributions is only thinly veiled (indeed at some points, not at all). Third, this is not an unbiased, reasoned assessment of SRI in the pensions context.

Because this book is focused primarily on the United States, it might be argued that it need not consider the discourse around sustainable finance and pensions in Europe and elsewhere. But if one is in the investment business, one cannot avoid some degree of global perspective. Even if the funds themselves are not international investors, the corporations which represent their core holdings surely are. Further, many companies are far ahead of investors in

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