

Book reviews

Benefits for the Workplace of the Future edited by Olivia S. Mitchell, David Blitzstein, Judy Mazo, and Michael Gordon, Philadelphia, PA: University of Pennsylvania Press, 2003, ISBN 0812237080, Pp. 301, Price \$49.95 USD.
DOI: 10.1017/S1474747203211318

At a time when it is tempting to focus narrowly on current workplace challenges, *Benefits for the Workplace of the Future* offers a rich and multi-faceted perspective on crucial longer-term workplace and benefits trends, and their implications to U.S. corporations. Skillfully mixing the insights of practitioners, consultants, industry pundits, researchers, and academics, the editors have compiled a comprehensive and thought-provoking assessment of the shape and challenges of the employer/employee relationship of the future.

The variety of perspectives allows for a stimulating exploration of key themes that employers face in light of changing workforce demographics. These include a potentially much tighter labor market; increased workplace heterogeneity; workforce transience that involves “permanent” employees who view themselves more as contract workers and a growing temporary labor force; and the shift of risk from employers to employees in terms of provision for retirement and health care. Regardless of their vantage points, the authors tend to agree, as consultant Martha Farnsworth Riche puts it, that “challenging workforce transformations await the employer of the future.”

At the heart of the series of essays is a debate that is captured – in one of the book’s highlights – by a point/counterpoint between Sanford Jacoby and Peter Cappelli. At issue: whether the fact that risk is being shifted to employees from employers represents merely a continuation of an evolving process, or rather indicates a dramatic structural shift. The significance of the debate is critical: if it is merely evolutionary, workers may still look to employers as the keystone of economic security in society. However, if Cappelli is correct in his view that layoffs have become part of the new workforce environment, as companies continually adapt their workforce to meet changes such as the greater volatility of product markets, then: “the challenges of managing retention, developing skills, and directing a workforce without lifetime commitment are real and require radical rethinking of the organization.”

The contrapuntal themes are reiterated throughout the book. For example, Riche – who promotes a greater need to accommodate intermittent labor force participation – is persuasive in her notion of radically recasting the role of the employer/employee relationship as focusing on benefits portability, skill enhancement, and flexibility in job structure. In contrast, Marjorie Honig and Irena Dushi contend – based on extensive demographic analysis – that “the compensation package for future workers may be more benefits intensive” and family oriented as the employer/employee relationship evolves. While clearly focused on tackling the challenging topic of future workforce and benefit trends, the book also offers solid grounding in the context of the evolutionary and revolutionary changes now underway. In particular, Mitchell thoroughly documents the historical transformation of the U.S. benefits and workforce environment. Likewise, Anna Rappaport succinctly describes the implications of current (and potentially ongoing) market and economic weakness in an environment where employees increasingly bear risk.

In all, *Benefits for the Workplace of the Future* is satisfyingly readable, especially given the breadth of analysis and data that it conveys. There are no quick answers here. Yet the researchers craft a compelling picture of the unfolding future relationship between employer and employee, and its strategic implications for business and workers' financial security.

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Banking on Death or Investing in Life: The History and Future of Pensions by Robin Blackburn, Verso, 2002, ISBN 1859847951, Pp. 376, Price \$30.00 HB, \$19.00 PB (USD). DOI: 10.1017/S1474747203221314

Robin Blackburn offers an unconventional set of ideas about how the pension system should work. His broad purview leads him to present not only a history of the formal pension system, but also of other social structures that previously provided for people in old age before the formal pension system was in place. His reach is broad, covering OECD countries and (more briefly) some experiences beyond the OECD, all of which lead up to his own proposals for how pensions should work in a more ideal world.

The author is deeply opposed to the financial services industry, which leads him to make sweeping and unflattering generalizations about its workings. He also places little faith in financial regulators. For example, he states that "the resources that will have to be mobilized to meet the economic challenge of pension provision have already whetted the appetite of a *shark-like financial services industry*, keen to sink its teeth into this abundant shoal of business" (p. 25, emphasis added). He goes on to say that "whatever the social price, the Anglo-American financial services industry thrived mightily in the 1980s and 1990s, but largely in a parasitic way in their host societies" (p. 433). It is interesting that the author is quick to point out the pitfalls of private fund management, but he ignores risks associated with public fund managers. For instance, he over-confidently states that "public funds, set aside with their own administration, constitution and social purpose, are difficult to tamper with" (p. 444).

Blackburn's skepticism about the financial sector leads him to propose that large quasi-public entities should replace the privately-managed pension industry. He is also concerned about the administrative and investment costs associated with private-sector delivery of financial services. Unfortunately he focuses only on individually-tailored solutions, thus ignoring workplace and other ways to deliver benefits. The author also favors giving specially-issued employer stock to employees, without noting the additional risk that this would impose on the workers' retirement accounts. He further proposes using pension assets for what he calls "socially responsible" industrial policy and social investing, and naturally he is opposed to a personal accounts approach to Social Security reform.

One problem with the book is that many claims made are not factually supportable. For instance, when reporting on the U.S. Social Security system, Blackburn states that "legislators wisely entrusted management of the programme not to a government ministry, but to a quasi-autonomous Social Security administration" (p. 9). In fact, the US Social Security Administration is a government agency, where Congress controls benefits, tax rates, and all other aspects of the system. He also extrapolates from the collapse of Enron to infer that the entire financial services industry is troubled, a generalization that this reviewer does not see as appropriate.

Professionals working within the corporate pension field will probably disagree with much of what is said, and some may be offended by inaccuracies and strong comments. Scholars will critique the sweeping generalizations and inaccuracies. The book is long and somewhat difficult to read. Yet there are some positives in the analysis. Blackburn's broad perspective interweaves pension issues and many social concerns, including demographic change and generational equity, social investing, links to capital markets and politics, employee ownership, immigration,

and retirement ages. His proposals to overcome the shortcomings of existing pension systems include a plan to establish desired benefit levels, methods of including those not currently covered by formal programs, a proposal to allow gradual retirement, and a proposal to make pension boards of trustees accountable to the community.

While the book lacks an integrated solution that will work, some people will find this book interesting. Those opposed to private management of social benefits will be intrigued by arguments presented. Those in favor of prefunding and personal accounts might wish to understand how Blackburn's arguments might impact the debate in different countries. Some seeking new ideas and wanting to think "out of the box" may be intrigued by the author's perspective.

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The New Financial Order: Risk in the 21st Century by Robert J. Shiller,
Princeton University Press, 2002, ISBN 0691091722, Pp. 400, Price \$29.95
USD. DOI: 10.1017/S1474747203231310

Robert Shiller's previous book, *Irrational Exuberance*, examined how our obsession with stock markets made us blind to the risks involved. Indeed in his preface to his new volume, *The New Financial Order*, Shiller explains that he was already working on the ideas which would frame this new book when, driven by what he describes as "the increasingly impressive evidence of an enormous boom" in the stock market, he put aside this work to write *Irrational Exuberance*.

This latest book therefore both overlaps and picks up from where his prior tome left off. Schiller's key contention is that individuals are only partially, if at all, aware of the big economic risks they face. As a result, major long-term economic risks are simply not discussed. In consequence, little is done to mitigate them.

At the heart of this book are six ideas for managing these big risks. (Indeed the book's subtitle, *Risk in the 21st Century*, is a less sexy but more accurate description of the book's overall theme.) Alongside these risk management ideas, Shiller proposes the creation of Global Risk Information Databases, or GRIDs, which would provide the detailed information to enable the proposed risk sharing to operate effectively and would in practical terms enable the pricing of some of the risks. He also proposes the creation of Indexed Units of Account. These units, essentially a form of index-linked accounting and payment, exist in some forms today, as in the Chilean "Unidad de Fomento". Although not central to this book, the concept of indexed units is certainly a topic worthy of further development.

The six ideas essentially break down into two groups of three, with the first group focussed predominantly on the private sector, and the second on the public sector. In the first group we find Livelihood and Home Equity Insurance, protecting individuals against long term risks to their paychecks (for instance because their particular skill is no longer in demand or has become obsolete) or to the value of their homes (one example given is a collapse in house prices in a particular area, due to a major employer shutting down). Also in this group of ideas are Macro Markets, effectively allowing for the trading of claims on a country's GDP or other income flows, and Income Linked Loans, where the repayment terms would be tied to the borrower's aggregate income. In other words, the higher the borrower's subsequent income, the greater the repayments of both capital and interest.

In the public sector category, Shiller first proposes the idea of Inequality Insurance. The objective of such insurance (in reality not insurance at all but a redistribution of income via taxation, as Shiller readily accepts) would be to prevent the gap between the richest and poorest widening further. As one of my professors once said, "I don't object at all to elected governments raising taxes if they want to, but I do get annoyed when they call it insurance rather than taxation". Secondly, in this area, Shiller looks at the question of Intergenerational Social Security and tries to achieve a better balance of cost and risk between old and young. Finally

he suggests the creation of International Agreements, allowing countries, either in pairs or through a central agency, to pay or receive according to whether their GDP exceeds or falls short of expectations.

Although all the ideas are interesting, it is clear that some ideas are likely to be more immediately practicable than others – primarily those having to do with the private sector. Thus the Australian higher education system is already funded by a system similar to that which Shiller describes in the chapter on Income Linked Loans. It is however much harder to conceive at present, no matter how justifiable on financial or risk management grounds, of a contract where India might be faced with increased interest payments to the United States as a consequence of US GDP falling short of expectations.

While acknowledging the creation of buffer funds in Sweden in the chapter on Intergenerational Social Security, Shiller surprisingly fails to mention the admittedly more recent creation of similar funds in France, Belgium, and the Republic of Ireland. He does however deserve hearty thanks for pointing out, once again, the flawed thinking in forcing the investment of social security contributions in stock market accounts. As Shiller says, “those who advocate these individual accounts appear to have drawn the wrong lessons from modern finance. Many seem to think that the deep wisdom coming from our collective experience with financial markets is that the stock market always returns 12 percent a year in the long run This is not financial wisdom. It is simply betting we will have as good luck with stocks in the future as we have had in the past.”

Whether or not one agrees with Shiller’s suggestions, this book is a fascinating and easily readable collection of thoughts and ideas about the risks we all face.

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Pension Reform in Europe: Process and Progress edited by Robert Holzmann, Mitchell Orenstein, and Michal Rutkowski, Washington, DC: The World Bank, 2003, ISBN 0821353586, pp. 210, Price \$25.00. DOI: 10.1017/S1474747203241317

Population aging and policymakers’ increased interest in financing retirement income through financial markets have spurred many countries to reform their social security pensions. The World Bank (1994) published *Averting the Old Age Crisis* as part of its successful effort to influence pension reform. That book is well-known for its “three pillar” model, entailing a mandatory unfunded pillar, a mandatory funded pillar, and a voluntary private pillar. The International Social Security Association and the International Labor Organization have also attempted to influence the social security reform debate with publication of *Social Security at the Dawn of the 21st Century* (Hoskins *et al.*, 2001) and *Social Security Pensions: Development and Reform* (Gillion *et al.*, 2000).

This newest World Bank book, edited by Robert Holzman and colleagues, asks “What prevents European countries from adopting mandatory individual accounts as part of social security reform?” Mandatory individual accounts, the World Bank’s second pillar, represent the heart of their approach. The book analyzes the political economy of reforms that involve such accounts which are characterized as “paradigmatic” reform; the authors do not consider “parametric” reforms such as raising retirement ages. The discussion focuses on process: what initiates paradigmatic reform, and what makes it succeed? The papers were first presented at a 2001 conference sponsored by the World Bank and the International Institute on Applied Systems Analysis.

An excellent overview is followed by six innovative chapters that divide Europe into the 15 European Union countries (EU) and the 10 European Union accession countries (EUA) expecting to join the European Union plus Croatia. Paradigmatic reforms instituting

mandatory individual account systems have been more common in the EUA countries. The editors' chapter posits that because EUA countries lag the EU countries economically, EUA nations are more motivated to try pension reforms that promise to boost economic growth. In addition, these countries have lower transition costs due to lower pay-as-you-go benefit promises to future generations. Kattharina Muller's chapter on the political economy of pension reform identifies the factors enabling successful reforms, including dynamic political leadership, international financial institutions' involvement, pension system crisis, and intelligent reform strategy. In the four countries examined (Argentina, Bolivia, Poland, Hungary), she finds that the forces driving reform were neoliberal ministries of finance and economics, backed by policy advice and financial support of international financial institutions such as the World Bank. Steven Ney argues that small networks of experts have dominated European pension policymaking, and reform has succeeded when neoliberal pension experts have risen to prominence. He also notes that because some groups have lost benefits due to pension reform, politicians tend to develop "blame avoidance" strategies, obfuscating benefit cuts through complex reforms. Agnieszka Chon and Marek Mora survey a small sample of policymakers and experts in 25 reforming and nonreforming countries, and the authors conclude the primary obstacle to paradigmatic reform is lack of consensus as to its merits among policymakers and experts. Consequently, most countries must precede paradigmatic reform with education and coalition building. Mitchell Orenstein contends that the pension reform process can be seen as result of a global diffusion of ideas with the World Bank playing an important role in this process during the 1990s. The present book seeks to continue that process.

The book's narrow focus on paradigmatic reform process permits it to examine the issue from a number of perspectives based on actual reform experience. Clearly, it is incorrect to conclude that paradigmatic reform requires a military dictatorship, as was the case in Chile. Further, the book focuses exclusively on paradigmatic reform in middle-income countries; it would have been interesting to include a discussion of paradigmatic reforms in high-income countries such as Australia, Sweden, and the United Kingdom. US readers might have benefited from a discussion of what the analysis implies for similar reforms in the United States. Overall, this book represents an excellent resource for students of pension reform as well as those, like the editors, with real world responsibilities.

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