for a reserve fund was largely removed. In contrast the reserves of private pension funds are generally managed in such a way that they are directly channeled into real investment; they also appear to have the effect of increasing the rate of national saving. A pay-as-you-go social insurance system transfers income from the working population, who are savers, to the nonworking population, who for the most part are nonsavers. Consequently, such a system is likely to reduce the real rate of national saving and investment and thus decrease the rate of economic growth.

A pension system that does not serve to increase future national productive capacity from which increased pensions must be paid—and which may even reduce future growth—has a disadvantage in comparison with a system that serves to increase economic growth (on the assumption that a higher rate of economic growth is desirable). Particularly, when we are reaching a stage where public policies may have important effects on the relative growth of public versus private pension systems, the possible effects on economic growth become significant.

Under certain assumptions, reserve fund financing of social insurance could well lead to increased national saving and investment,[25] but it is by no means certain that a reserve fund invested in Government bonds will have this effect. An attempt to insure such an effect has been made under the Canada pension plan by investing its assets in Provincial government securities. Presumably the uses made of long-term borrowing by Provincial governments are such as to increase real national investment. Such investment of funds obtained from a compulsory government pension program does serve to reduce demands on the capital market by Provincial governments and should leave more funds available for private business investment.

In any case, there is a broad range of policies open to Government to promote economic growth, and the financing of a contributory social insurance program must be taken into account in formulating policies for growth and stability. However, this does not mean that social insurance financing should necessarily be used as a major instrument for pursuing such goals.

COORDINATION WITH OTHER PUBLIC POLICIES RELATING TO THE AGED

A revision of social insurance programs to put the primary emphasis on the contributory principle would necessarily involve revisions in other policies and programs affecting the aged. These include the income tax treatment of the aged, the tax treatment of private pension plans, and he coordination of social insurance with other welfare programs.

The increasing coverage and rising level of benefits under social security have made the issues of the various policies toward the aged closely interdependent. Issues in the tax treatment of the aged were of relatively minor importance when the level of social security benefits was so low in relation to the size of personal exemptions that few people were affected by tax exemption of social security benefits. But, rising levels of both public and private pension payments, combined

[25] Richard A. Musgrave, *The Theory of Public Finance* (New York: 1959), pp. 565–567.