

of the old-age economic problem, why did employers and employees choose to meet the need, at least in part, through the vehicle of private pension programs?¹

Many attempts have been made over the years to explain private pensions in terms of an underlying concept, rationale, or philosophy.² These various attempts all seem to fall within one of the following general concepts or rationales: (1) Business expediency; (2) human depreciation; and (3) deferred wage.

Some might express surprise that "social responsibility" is not included in the above list of rationales of private plans. The reasons for not including this alternative in the list are part semantical and part philosophical. The semantical problem derives from the lack of agreement as to the meaning of "social responsibility" as a rationale for these plans. For example, if the term means that such plans should contribute to the economic welfare of at least employees with relatively long periods of service with the employing firm, then all the above rationales incorporate some elements of a social responsibility criterion; this being particularly true under the human depreciation and deferred wage concepts. If the term means that macro or broad social welfare objectives should be the primary goals in the establishment and design of private pension plans, and motivations at the micro or firm level should be secondary, then it is my opinion that there would be philosophical objections on the part of most management people and a lesser, but still significant, number of labor leaders to the concept of social responsibility as the underlying rationale of private pensions. Many of the critics of private pension plans assume a set of plan objectives which is at variance, at least in degree, to the plan motivations at the level of the firm. It is little wonder, therefore, that there is such confusion in the current debate on this issue. More will be said on this point later in this paper. However, an awareness of this potential conflict in objectives is necessary to a fuller appreciation of the rationales and motivations offered below as explanations for the growth of private plans.

BUSINESS EXPEDIENCY CONCEPT

Early industrial pension plans were viewed as gratuities or rewards to employees for long and loyal service to the employer. Closely related to this view is the concept that private pensions constitute a systematic and socially desirable method of releasing employees who are no longer productive members of the employer's labor force. Regardless of the view taken, the fact remains that these early plans were largely discretionary, and management made it quite clear that employees had no contractual rights to benefits under the plan. Continuation of the pension plan was dependent upon competitive conditions and management policy. Furthermore, management reserved the right to terminate benefit payments to pensioners for misconduct on the part of the beneficiary or for any other reasons justifying such action in the opinion of the employer.

¹Major portions of this section and the following section of the paper are drawn from Joseph J. Melone and Everett T. Allen, Jr., *Pension Planning* (Homewood, Ill.: Richard D. Irwin, Inc., 1966), ch. 1.

²For an excellent discussion of pension philosophies, see Jonas and Mittelman, "The Vesting of Private Pensions" (Unpublished dissertation, University of Pennsylvania, 1959), ch. ii.