

THE MACROECONOMICS OF PENSION FUNDS

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The provision of income for the elderly has become an increasingly institutionalized undertaking in modern, urban societies. This development suggests a number of issues, many of which are treated in this Symposium. Like other economic activities, income maintenance devices, if sufficiently large and widespread, have an impact on aggregate saving, investment, output, and growth. It is the purpose of this paper to examine pension plans in the light of their aggregate impact on the economy. Part I discusses some concepts and definitions with respect to pension assets, liabilities, and the structure of claims on national wealth. Part II discusses such variables as length of working life, life expectancy at retirement, and retirement income relative to working income as they relate to saving, investment, income, and wealth. The response of the economy to changes in saving patterns induced by pensions is also considered under various assumptions. It is there shown that pension saving, together with Federal deficits to maintain full employment, produce a public-private wealth structure which is analytically similar to an underfunded public retirement system.

Part III examines the growth of pension funds, 1946-1965 and notes the growing share of personal saving which is thus institutionalized. Part IV discusses some recent projections of pension funds to 1981 and conclude that they are probably too low. If this is the case, then the impact of pension funds on the economy is likely to be even greater than previously indicated.

The paper has few conclusions as such, but it does throw additional light on a number of important questions. Perhaps the major issue has to do with the likely course of full employment saving in relation to private investment demand. There may well develop a situation in which private saving in pension funds must be partly offset by dis-saving on the part of the Federal Government if relatively high unemployment is to be avoided. The use of tax policy to encourage a kind of private saving which requires offsetting public deficits would appear to be curious indeed. There would seem to be an urgent need to explore reinsurance and other devices for reducing the degree of private funding, if such an outcome of our present arrangement is indicated. Beyond that, liberal tax inducements toward pension saving might be reevaluated, if there is in prospect a saving-investment relation which is more often contractionary than not.

I. SOME CONCEPTUAL AND DEFINITIONAL CONSIDERATIONS

An economy in which the extended family is the dominant institution provides goods and services to the elderly via intergenerational transfers within the family. Saving and investment may and do take

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