

place, but they are not necessarily related to the process of providing for the aged. The physical separation of generations, frequently accompanied by a reduction in the number of children per family, seems to be associated with the rise of more formalized financial provisions for retirement, both as to public and private arrangements.¹

A striking feature of recent history in the United States is the rapid growth and spread of pension arrangements which involve a degree of compulsion—both with respect to public and private institutional arrangements. There are some problems of concept and definition in these arrangements that have to do with public and private wealth, and the structure of claims by which wealth is owned.

The desire to allocate some portion of current real output under one's control to future consumption is a desire to save. In economies using productive capital goods, resources released by saving for future consumption (or for any other purpose) may be accumulated in the form of capital goods. Since saving and investment are acts typically performed by different economic transactors, the act of saving usually results in the accumulation of direct or indirect financial claims on investing sectors. In fact, the development of financial claims which permit the intersectoral flow of saved resources may be regarded as a major factor in the productivity of modern, high-income economies.

Until the advent of the social security program in 1935, financial provision for retirement (if any) in the United States was mostly an individual matter. Some private pension plans had been in existence for years, and some of these had features of compulsion. For the vast majority of Americans, however, saving for retirement took the same forms as for any other purposes. Aside from equities in the few existing pension plans, the major financial instrument tailored especially for retirement was the annuity offered by insurance companies. This instrument has never been of great importance in the American financial structure.

By way of contrast, pension claims by households against public and private institutions now represent a major financial instrument. As a form of financial saving, or as a means of channeling household savings into the hands of investing sectors, pension equities already funded amount to some \$175 billion. If unfunded pension claims were included, the sum would be larger by several hundred billion dollars. Indeed, by some ways of reckoning the total pension obligations, they may exceed in the aggregate all other types of financial claims except common stocks.

This observation raises the question as to the appropriate definition of pension assets and liabilities. From the standpoint of the household, a claim to future payments constitutes an asset which might be measured as the discounted present value of future payments already earned. The corresponding liability, from the standpoint of the paying sectors, is the discounted present value of future payments likely to be made on the basis of work already performed by each employee. Viewed in this light, the aggregate "asset" of households and "liability" of pension-paying sectors is enormous—much bigger than reported reserves of the various public and private retirement funds.

¹ For a discussion of these matters, see Juanita M. Kreps, "The Economics of Inter-generational Relationships", in Ethel Shanas and Gordon Streib, *Social Structure and the Family: Generational Relations*, Prentice Hall (Englewood Cliffs, 1965).