

capita would be raised; the increment to output (assuming positive returns to capital) might fall short of the increment to saving (assuming diminishing returns to capital, and a sufficiently high initial capital-output ratio).¹²

Under post-Keynesian assumptions, additional savings induced by pension plans again need not threaten either price stability or full employment. Under conditions of chronic excess demand, additional private savings via pension plans would merely reduce the size of Federal surpluses needed to restrain demand, or might permit greater monetary ease with generally lower interest rates. Under conditions of chronically inadequate private demand, the existence of additional saving through pensions implies larger Federal deficits, and perhaps lower private saving rates.

The latter possibility may be taken as a case at least worthy of consideration. The years following 1957 were either years of unemployed resources, or Federal budget deficits, or both. The only post-1957 years in which private investment absorbed private saving forthcoming at more or less full employment were 1965 and 1966. The Federal budget, on a national income accounts basis, had a slight surplus in those years. Yet that volume of private investment, abetted until late 1965 by monetary ease and longer still by the investment credit and liberalized depreciation rules, may well turn out to be unsustainable. Unsustainable, that is, in the sense that productive capacity grew in 1965 and 1966 more rapidly than could full-employment output, constrained by the growth rate in the labor force and in labor productivity. Data now available do not permit any conclusive statements; the question would appear to be sufficiently open to warrant an examination of the "excessive saving" case.

If pension saving does raise the implied full-employment growth rate in output beyond that consistent with the growth in the labor force and labor productivity, and if the capital-output ratio, interest rate, profit rate, and technological developments do not easily reconcile these divergent rates, then a balanced-budget economy would tend toward stagnation and chronic unemployment.¹³ The use of monetary and especially fiscal policy to offset pension saving would result in a growing public debt.

Thus private pension saving would take place at the expense of public dissaving. Apparent private wealth would increase, if we make the common assumption that households do not take into account any share of their future tax liabilities with respect to the public debt.

¹² This is a major point of Phelps' paper (op. cit.). He finds that consumption is maximized where the growth rate equals the interest rate. The point is pursued in my "The Social Insurance Paradox: A Comment," *Canadian Journal of Economics and Political Science*, forthcoming. It is there shown that in the context of neoclassical growth models, pension claims are overfunded (reduce aggregate consumption) if the interest rate lies below the rate of growth in output.

¹³ My version of the chronic oversaving case is, I hope, a bit more sophisticated than versions discredited by events in the early postwar years. I am thinking explicitly in terms of long-run growth considerations. Record private investment outlays in 1965 (15.6 percent of GNP) and 1966 (15.8 percent of GNP) are estimated to have raised productive capacity in manufacturing by 5 and 7 percent, respectively. (Council of Economic Advisers, *Annual Report*, 1967, p. 221 and p. 253. Capacity in other sectors, of course, does not necessarily follow manufacturing capacity.) No one has seriously proposed that total output in the United States might grow for long periods at such rates. Given estimates of the labor force in future years, such growth implies annual increases in labor productivity rarely attained and never sustained in the United States. My view also implies some pessimism as to smooth (even in the long run) adjustments in the economy toward higher capital-output ratios and lower interest rates. Movement toward the latter, of course, is further constrained at the moment by balance-of-payments considerations.