Private pension claims are then indirectly supported by a public liability—wholly, if the increase in public debt equals the accumulations of private funds; partly, if "excess saving" is only part of pension saving. The important result of analyzing this case is the following: as to saving, investment, income, and private wealth (including the present value of future pension payments) private pension funds plus public deficits are analogous to unfunded public pensions. When OASDHI is underfunded, private wealth (including the expected value of future pension benefits) exceeds national wealth. The Government has a liability equal to the underfunding of OASDHI. Future tax revenues will, in effect, pay the pensions. In the private pension fund, public-debt case, private wealth again exceeds national wealth, but the public liability to be tax financed (at least as to interest) appears not as OASDHI underfunding but as explicit debt.

Though the net effects are similar for some variables, they are quite different with respect to other variables. Since Government securities are not very important in private pension portfolios, and common stocks are, the *ceteris paribus* effect of the pension saving—chronic excess saving-Federal deficit case is to raise stock prices relative to bond prices, to lower stock yields relative to bond yields, and to alter the cost of equity capital relative to debt capital.

If, on the other hand, the correct characterization of the postwar period in the United States is one of chronic undersaving and excess-demand inflation, the effects of pension saving are quite different. Price inflation has been less severe than it otherwise would have been. Federal deficits would have been larger (occasional surpluses smaller) than would have been required to maintain the same degree of demand inflation in the absence of pension saving.

There is yet another aspect of pension saving which needs our consideration; namely, the influence of tax concessions on aggregate saving. Under present arrangements, some 40 percent of personal saving, and subsequent investment earnings thereon, escape current taxation. Various assumptions as to deferment periods, discount rates, tax rates during retirement, and the like, produce widely varying estimates of the effective tax benefit. Nevertheless, the implied rate of taxation on pension saving is materially lower than on income in general. We are thus taxing all personal saving on the average, and pension saving in particular, at a lower rate than we tax consumption. In the oversaving case discussed above, we are subsidizing saving through tax policy in such a way as to require even larger offsetting public deficits than would be required without the subsidy.

III. Pension Funds, 1946–65

The explosive postwar growth of pension funds in the United States is a widely documented phenomenon, so that it need not be discussed in detail here. We shall briefly trace out the course of accumulated pension funds since 1946, and compare annual increments (saving) to the total of household saving in the same period. Figure 1 traces, on logarithmic scale, the growth of pension funds (other than OASDHI and the Railroad Retirement Funds),[14] from approximately $11 bil-

[14] Corporate pension funds, insured funds, State and local government funds, and Federal Civil Service Retirement Fund. Railroad Retirement Funds are omitted since they are relatively small and hardly growing.