

I. THE PRINCIPAL QUESTIONS

The emergence of a new structure of fiscal operations, financial institutions, and capital market participants inevitably raises a host of questions about its implications for the American economy and, in particular, the saving and investment process. Despite the fact that the original Federal legislation for the old-age and survivors insurance program dates back to 1935 and pioneer arrangements by private industry to provide retirement income are 50 years old and more, the present structure is properly described as new in the sense of only now becoming of genuine economic significance. Now it is possible to visualize the impact of public and private pensions on such basic economic processes as saving and capital formation.

RETIREMENT SAVING IN AN INDUSTRIAL SOCIETY

How can a well-developed industrial society like the United States save for the purpose of providing retirement income? As fewer individuals directly own the means of producing those goods and services which they wish to use in retirement, it is evident that fewer of them can store tangible assets for future consumption. In the New Testament parable, the rich farmer could build new barns to store grain and other goods for years of future ease.¹ His present-day counterpart, however, would hire a larger safe deposit box to store financial claims and equities.

The point is simply that rising living standards are achieved through the development of an economy which relies upon the exchanging of claims to goods and services rather than the satisfaction of wants from the individual's own current output or a bartering of consumption goods. The individual members of our 20th-century society, therefore, cannot and do not save for their own retirement needs in real terms. It is true that an individual can provide for some of his future needs by acquiring outright ownership of his home. But, he cannot store up, in physical terms, future property taxes, insurance premiums, maintenance expenses, and the cost of cutting the grass.

That only a small fraction of saving for retirement can take the form of accumulations of tangible goods, whether we think of individual cases or of society as a whole, means that the process of saving and investment, the exchanging of financial claims, must develop and grow to accommodate an additional type of transaction. Furthermore, as arrangements are made to handle these transactions outside the family unit, the claims and financial assets entering into the money and capital markets are multiplied. The simplest illustration is the case of the son who used to support his parents from current income, but now supports them only as a member of the working population while they live on OASI benefits, a supplemental private pension, life insurance benefits, a savings account, and dividends from common stocks.²

¹ Luke 12: 16-19.

² The growth of financial institutions for such transactions has been explored in depth by Raymond W. Goldsmith in *Financial Intermediaries in the American Economy Since 1900*, Princeton University Press for National Bureau of Economic Research, 1958, and *The Flow of Capital Funds in the Postwar Economy*, New York, NBER, 1965.