

stable at 86 percent for the past decade. One dollar of contributions in eight, therefore, represents a form of individual saving by the employee directly analogous to saving through life insurance or any other medium.

The interest earnings of the funds represent a return for currently setting aside the discounted cost of benefits payable in the future. These earnings are presumably shared by the employee and the employer approximately in proportion to their contributions. The fact that the earnings are not taxed gives them full value.

It is more difficult to determine the cost incidence of the employer contribution. It is a part of total employment costs which may be recovered in part by the individual firm if (1) the plan serves to attract more productive employees; (2) it reduces turnover, training expenses, accidents, and spoilage; and (3) it provides for orderly retirement and promotions as a part of more efficient personnel management.

If the employer cost merely substitutes for other forms of compensation, it has been shifted backward to the employee. The incidence is not necessarily either equal or proportionate among individual employees. This shift can take the form of a slower increase in money wages relative to productivity gains. Collective bargaining over a total pay package appears to accept this concept, with pension and other fringe benefits substituted for or added to pay increases in cents per hour. The well-paid and highly paid employee with long service may welcome this bargaining emphasis. The employer's larger contribution for a more liberal pension benefit is not taxed to the employee currently as income; the tax impact is deferred until retirement, when his effective tax rate will be significantly lower. Within limits, the marginal dollar of employer contribution to pension benefits is worth more to the employee than the incremental dollar of money wages added to his own retirement savings.

A different situation may exist, however, when a pattern plan is negotiated throughout a major industry without regard to productivity gains. Depending upon product demand elasticities, a price rise to recover this added cost may cause a decline in output and employment or a shift from the utilization of labor to other factors of production. The net effects may be extremely difficult to trace. They obviously depend upon the economic environment and other influences at work in the economy at the time.⁶

It appears that the shifting and incidence of the employer's cost will vary with the characteristics of the industry and the firm within it. There is no clear answer to the question but only a limitless array of specific cases. Perhaps the best general conclusion we can reach is that the net cost is probably shifted both forward and backward, with a longrun reduction in corporate profits, and, therefore, corporate saving, taking place only in marginal instances.

Another "contribution" to private pension programs is the favorable income tax treatment given to employer contributions and fund earn-

⁶ For a searching discussion of the various possibilities, see Challis A. Hall, Jr., "Retirement Contributions, the Spending Stream, and Growth," *Federal Tax Policy for Economic Growth and Stability*, papers submitted by panelists appearing before the Subcommittee on Tax Policy of the Joint Committee on the Economic Report, November 1955, pp. 786-797. I am indebted to Dr. Thomas E. White for his analysis of the elements of this problem during his participation in the pension research project.