

place slowly and is greatly aided by a sense of equity in the division of the cost incurred. The role of economic analysis is to measure, more effectively than in the past, the incidence of cost burdens and the distribution of benefits. If this is done well, the choices and decisions on priorities among programs to enhance the level of living will be made not by prototypes of the economic man but by an electorate better informed of the economic consequences of efforts to meet desired social objectives.

In broad perspective, the limitations on what the American economy can "afford" to provide in the way of income maintenance to older members of the population are costs (burdens of transfers) incurred and the conflicting claims of other high-priority objectives for its dependent members; that is, education of dependent children competes for resources against better living standards for dependent senior citizens. The limitations are real resources and the willingness of individuals to share gains in real income. The Federal Government's tax-supported programs are essential to deal with the large number of cases in which a stable employment relationship does not exist. On balance, they are no more burdensome per dollar of expenditure, and perhaps less so in the case of OASDI, than a wide range of public service activities.

Funded employee retirement plans, whether public or private,¹³ involve less burden on the incentives of those actively engaged in production. Through the saving and investment process, they finance the economic progress which produces higher retirement living standards. This is presumably the rationale for deferring the incidence of income taxation on growth in the individual's pension equity. In essence, it is also an answer to the question: What difference does it make whether now and in the future a greater proportion of retirement incomes is provided under private auspices or under tax-supported governmental programs?

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IV. THE EFFECT OF PENSIONS ON AGGREGATE SAVING

Nonfarm households are the principal group of savers, typically accounting for about three-fifths of gross national saving in the American economy.¹ Logically, then, we should give primary attention to the question of how retirement income programs affect the saving of individual family units, commonly referred to as personal saving to distinguish it from saving by corporate business, unincorporated businesses and farms, and units of Government.

THE ISSUES INVOLVED

From the national income and product accounts prepared by the U.S. Department of Commerce, the picture below emerges of personal income, personal saving, and retirement saving. However measured, retirement saving represents a major share of personal saving and its importance has increased during the first two postwar decades. By all

¹³ In this context, there is no distinction between the retirement systems of State and local governments and the plans for individuals in private employment, since both generate private saving and the financing of activities which enlarge the output of goods and services.

¹ Based upon the flow-of-funds accounts of the Board of Governors of the Federal Reserve System. Households provide an even larger proportion of net saving in the economy.