

on the other hand, is found in those cases where the individual contributes at a modest rate and has only partially vested rights to his pension. The recognition effect seems to be least powerful when the household head does not contribute to the plan and has no vesting.

The argument that a contributory pension plan is more meaningful to the employee than a noncontributory one is apparently supported by these findings. Further, the transformation of a remote contingent benefit prospect into an emerging firm promise as vesting is earned seems to act as a catalyst in the individual's making of decisions to save for his old age.

The operation of both recognition and substitution effects in producing the average behavior of households in the Consumers Union panel suggests that the impact of pension programs on aggregate personal saving can change over time if there are changes in the structure of pension arrangements. This must be kept in mind when we turn to the question of implications of Cagan's findings for the future.

CORROBORATION OF CAGAN'S FINDINGS

Writing in *The Mass Consumption Society*, George Katona of the Survey Research Center, Institute for Social Research of the University of Michigan, discusses the recognition effect in these words:

Being assured of some, for most people insufficient, funds after retirement, the provision of adequate funds during old age no longer appears an insurmountably difficult problem; being closer to the goal stimulates people to work harder to achieve the goal, and, therefore, collective retirement plans promote individual saving. . . .

This hypothesis is derived from the goal-gradient hypothesis which assumes that effort is intensified the closer one is to one's goal. . . .

Goals that are believed to be attainable stimulate us to a much greater extent than improbable dreams.⁷

This, then, is a rationale based upon the study of human behavior for the results obtained in Cagan's study.

The other major question raised about Cagan's conclusions relates to the nature of his sample. Admittedly, it is debatable whether the reactions of the particular group of Consumers Union respondents can be accepted as valid for the American population as a whole. Fortunately, important evidence on this question has been provided in a subsequent study by Katona and his staff at the University of Michigan. With the assistance of a research grant from the Social Security Administration, Katona surveyed a representative sample of households in the continental United States in 1962 and 1963. His findings completely support the existence of the recognition effect of pension coverage.⁸

Pension coverage, according to this survey, increases both saving behavior and saving-mindedness. Those expecting an adequate retirement income, furthermore, save at least as much on average as those who expect an income below their needs. The effects of rising levels of aspiration, stimulated by accomplishment, in motivating saving are seen as the powerful factors; fear of the future seems to provide much less motivation for saving for the distant prospect of retirement.

⁷ New York, 1964, pp. 184-185.

⁸ George Katona, *Private Pensions and Individual Saving*, Monograph No. 40, Survey Research Center, Ann Arbor, Mich., 1965.