

sion saving are not entirely indigenous to the pension structure. In the case of private plans, indeed, corporate managements have preferred to use variable contributions as a method of averaging income. Public regulation to assure the fulfillment of pension promises seeks to regularize contributions and so does the Internal Revenue Code. Financial analysts and the public accounting profession seek regular recognition of pension costs as they are incurred and not when flexible contributions are actually made to the fund.⁴ Also, variability in employer contributions is not feasible under the budgeting practices of State and local governments.

Essentially, however, the reality is that pension systems are not well designed to provide variability in saving flows. The long-term nature of their contracts calls for regularity in provisions to meet them. Finally, equity investment is a major outlet for the saving flow, and there is some presumption that rates of return will prove higher on investments made during periods of slack economic activity. The stabilizing influence of pension fund investing on the secondary market for equity securities would diminish if pension saving flows were permitted to be highly variable.

One of the most important aspects of economic stability is the question of inflation. We have repeatedly observed that inflation can erode the value of pension promises and warned that, unless the burden of income transfers is willingly borne by the working members of society, they will acquiesce in policies which lighten the burden by inflation. This unfortunate outcome of the pension movement is not now in sight. But, neither has the full burden been felt. The volume of claims to be presented has only well begun its long rise. Capital formation at a high level has spurred real output. Pension saving in the future may contribute less to this progress if, in fact, saving is the limiting factor on economic growth.

As we move into the period of substantial rise in benefit payments and witness the diminishing pace of pension saving, it will be necessary to adjust fiscal policy to the changing situation. Again, the availability of more precise measures of possible future effects of income redistribution through pension programs will be required to judge the adjustments most appropriate to the emerging situation.

IMPLICATIONS FOR THE CAPITAL MARKETS

The stability of net fund flows makes pension systems almost unique among the major suppliers of funds to the capital markets. Apart from the mild cyclical fluctuations mentioned above, no unpredictable changes in inflows need be anticipated by the portfolio manager. Another unique characteristic is the absence of valuation problems. There is no requirement, as with a deposit-type financial institution or a life insurance company, to demonstrate on a certain day an excess of assets over liabilities on the basis of some prescribed or conventional valuation of assets.

These two salient characteristics, the absence of both liquidity and published statement requirements, impart different dimensions to

⁴ Ernest L. Hicks, *Accounting for the Cost of Pension Plans*, Accounting Research Study No. 8, American Institute of Certified Public Accountants, 1965.