

with the enterprises which contribute to it. If there were, we should expect to find the highest acceptance of risk among pension funds for State and local government employees or public utilities. Conversely, the greatest aversion to risk should be characteristic of plans for employees in highly cyclical or chronically unstable activities. Actually, almost the reverse is true. This may be a result of transferring to fund investment management decisionmaking the attitudes and outlook most frequently applied to the organization's internal investment decisionmaking.

Generalizations about the cautiousness of fund managements are, therefore, difficult to make. All kinds of portfolio policies are emerging and being followed. The spectrum of policies is nearly as broad as the range of investment opportunities. Over time, the funds will flow to the areas of the best returns, the allowance for risk being taken into account not perfectly but at least rationally.

Within the framework of recognized standards of fiduciary responsibility, then, the flow of pension saving will continue to spread through most segments of the capital markets. It is not material if these funds acquire predominantly seasoned equity securities, for example, because those who sell to pension funds may be in a position to reinvest in companies with greater risk exposure. In an aggregate flow-of-funds view of the capital markets, the significant factors are aggregate sources and uses, the absence of compartmentalization of markets, and a market structure which permits prompt responses to changing demands.

The growth of insured and noninsured pension plans for individuals in private employment, because of their flexibility in the allocation of saving flows, has probably done more than any other single development to improve the breadth and responsiveness of the capital markets to changing patterns of demand. They provided a major remedy to the shortage of equity capital in the period immediately following World War II, as evidenced by the subsequent recovery in the value of corporate earning power to previous levels. They have contributed to a closing of the yield differential between directly placed and publicly offered corporate bonds in the upper-quality ranges. They may have aided the responsiveness of certain classes of mortgage yields to bond yields.⁷

The picture which emerges is of an additional source of funds for the capital markets with a minimum of permanent commitments to any particular sector of those markets. In the years ahead, we can anticipate somewhat greater flexibility in the allocation of fund flows and greater responsiveness to yield differentials which express the comparative intensity of demands for funds. Our projections are illustrative of possible patterns of response, but what actually takes place will be a function of the changing pressures in the marketplace. On balance, these public and private pension accumulations have made a major contribution to the efficiency of the capital markets in channeling funds to the most productive areas of investments.

⁷ More definitive conclusions on these points will emerge from the National Bureau's interest rate study. See Joseph W. Conard, *The Behavior of Interest Rates: A Progress Report*, New York, NBER, 1966.