

Moreover, it is questionable that an employee covered by a pension plan actually receives special tax treatment because he is not taxed when his employer makes the contributions, but instead pays tax when he receives the benefits. A good case can be made in equity for imposing the tax at the later date. This is the time when the employee actually enjoys the use of the pension income. It would be unfair to tax the employee at the time his employer makes the pension contributions, since even an employee who has vested rights generally cannot receive any benefits prior to retirement. Furthermore, he might die prematurely and never receive any benefits.

For the same reasons, it is equitable that tax on the investment earnings on pension funds be paid only when they are received by the employee as pension benefits.

Finally, there would appear to be considerable justification for encouraging the private pension system even at the cost of some tax revenue. The social objective to be gained—the encouragement of private provision for retirement needs without the direct expenditure of public funds—would be well worth the cost.

II. PRIVATE PENSION FUND SAVING AND INVESTMENT AND THEIR IMPLICATIONS FOR ECONOMIC GROWTH AND STABILITY

Probably the most provocative idea advanced in the Joint Committee Print is the suggestion that the flow of saving into investment through private pension funds may be contrary to the public interest in that it may inhibit full employment and economic growth and contribute to economic instability. This suggestion conflicts with the views of the vast majority of economists, who are convinced that the healthy expansion of saving through private pension funds is vital to the sound growth of the American economy in the years ahead.

This section of our statement will discuss: (1) Some of the specific issues raised by the print in this regard; (2) the theory of saving, investment, and economic growth; (3) the facts about private pension fund saving and investment; (4) the urgent need for a high rate of saving and investment in the years ahead; (5) pension savings and longrun investment planning; (6) pension savings, investment, and risk capital; and (7) recommendations in other countries for the encouragement of pension savings.

THE ISSUES RAISED BY THE JOINT COMMITTEE PRINT

An introductory paragraph of the print asks: "May not pension plans . . . interfere unnecessarily with the exercise of free choice in employment and in saving, induce an excessive rate of saving * * * and hinder the productive deployment of wealth." ⁶ Later, in discussing the "economics of pension saving," the print states:

The large volume of pension plan saving is to some no source of great concern, it being argued that since saving increases the capital stock we are all better off therefore. The difficulty with this argument is that the premise is false. Saving does not increase the capital stock. Investment increases the capital stock. Given the demand for capital goods, increased saving reduces the rate of interest. A fall in the rate of interest may induce additional investment;

⁶ Joint Committee Print, p. 1.