

the great competitive pressures for the consumer dollar which are tending to whittle down the rate of personal saving. Because of the steady flow of pension savings, longer run planning of capital spending by business and industry becomes more feasible.

Unless private savings are available for investment, the only possible alternatives are monetary expansion and Government savings. The Joint Committee Print comes close to saying that the Government should provide funds for investment, thus dispensing with much of the need for private savings. This would seem to call for an unnecessary encroachment of Government, to the detriment of the free enterprise system.

Another issue raised by the Joint Committee Print is whether an alleged failure of private pension funds to assume investment risks has curbed the economic growth of the country. The issue is stated as follows:

Very generally speaking, reductions in pension plan funding requirements probably confer upon society a boon in productive efficiency. Transferring these funds to business in general through the intermediation of pension funds means that they will be invested on the average more cautiously than if the transfer had not taken place. What good does it do, we may ask, to consider all the alternatives if one consistently chooses safe, low-yield investments? The reduction over several years in the rate of economic growth from this diversion of funds at risk could easily exceed the cost of all pension benefits paid.¹⁰

Again, this is an erroneous concept. Safety of principal must, of course, always be an important consideration in the bond and mortgage investments of pension funds. During the past 20 years, however, through direct placement of corporate bonds and mortgages, the institutions administering pension funds have taken reasonable and measured risks, and have been compensated for such risks by a better rate of investment return. Also, noninsured pension funds have for many years been invested to a substantial degree in common stocks, and the proportion of insured pension savings invested in common stocks is rising markedly. It is not surprising, therefore, that pension fund investments have contributed strongly to increased productivity and growth.

After having argued that pension fund investments are too conservative, the Print then immediately proceeds to argue just the reverse, as follows:

We have stressed the likelihood that pension funds will be managed with an excess of caution. The rate at which pension funds have acquired corporate shares during recent years does not suggest caution. Rather it suggests that pension trustees from an interest in reduced contributions and perhaps from lack of experience in financial management may be putting their plans in a position to suffer a disaster such as that which overtook mutual funds in the early 1930's for much the same reason. Pension plan purchases of corporate shares now, just as mutual fund purchases then, are a primary factor accounting for a chronic excess demand for shares which explains a long, rapid rise in share prices * * * It is a misfortune that banks and insurance companies, competing for pension funds, have got caught up in this process. Through the exercise of monetary and fiscal policy the economy can be protected from widespread unemployment but not against stock market debacles. There is, therefore, some prospect that much of the value of pension funds may sometime disappear. What will the plans do then—asks the Federal Government—to make good their pension promises?¹¹

¹⁰ Joint Committee Print, pp. 19-20.

¹¹ *Ibid.*, p. 20.