

As we have already noted, a high proportion of noninsured pension savings has for some time been invested in common stocks, with a limited but growing share of the insured funds going into corporate shares. There are, of course, some risks in this policy. But, as the American economy has expanded strongly during the past two decades, with the general price level moving upward, and with the cyclical downturns moderate and of brief duration, the policy has proved successful. Looking to the future, stock investment by pension funds has a role to play, particularly if fiscal and monetary policies are to be directed toward maintaining full employment and stimulating faster economic growth.

The comments above highlight some of the basic defects in the economic thinking reflected by the Print. We turn now to a fuller development of our views with respect to the great importance in the years ahead of a vigorous growth in private pension savings.

THE THEORY OF SAVING, INVESTMENT AND ECONOMIC GROWTH

The objectives of U.S. economic policy, as set forth in the Employment Act of 1946, and in subsequent annual economic reports of Presidents of both parties, are: (1) The maintenance of full employment of our labor force and other resources; (2) a stronger rate of economic growth (currently the target seems to be 4-5 percent compared with an historical trend figure of about 3 percent); (3) the avoidance of serious fluctuations in the economy; (4) reasonable stability of the general price level; and (5) restoration and maintenance of reasonable balance in the international payments position of the United States. All of these objectives are to be sought by means designed to preserve, at a maximum degree, a free market-oriented economy.

At the present time, the U.S. economy is operating at very close to its full employment potential. The only way to grow faster than the present attainable growth rate is to increase the potential for growth. Walter Heller recognizes this in the following statement:

So future fiscal dividends must be declared with an eye not just to the uses but to the *sources* of growth. In the past few years part of our rise to the top of the growth ladder has been accomplished by closing the GNP, or production gap. With the economy operating at or near its potential, our realized growth in the future will depend chiefly on the rate of increase in that potential. We can no longer pad the figure, so to speak, by taking up economic slack.

Rising productivity will be the key. In part this will require continued measures to maintain high levels of private investment in plant and equipment. In part, also, it calls for measures to improve efficiency and hence productivity by adjustments—many of them politically painful—in our policies for transportation, manpower allocation, agriculture, and the like.¹²

Charles L. Schultze, Director of the Bureau of the Budget, in his book *National Income Analysis*, cites two main sources of economic growth—labor input and the growth of productivity.¹³ The labor input of any economy depends upon (1) the number of people of working age, (2) the “participation rate”—the percentage of people of working age who choose to enlist in the work force, and (3) the num-

¹² Walter W. Heller, *New Dimensions of Political Economy*, Harvard University Press, Cambridge, Mass., 1966, p. 108.

¹³ Charles L. Schultze, *National Income Analysis*, Prentice-Hall, Inc., 1964, pp. 113 ff.