

ber of hours worked per year. As Dr. Schultze points out, "in the long run, rising living standards flow from an increase in output per worker." Since World War II output per man-hour has increased at an annual rate of about 3.2 percent. The ways to increase output per man-hour, as set forth by Dr. Schultze, are: (1) Increases in the stock of physical capital; (2) improvement in technology—advances in scientific and technical knowledge; (3) the spread of education; and (4) an expansion of markets which foster productive specialization.

What is the role of saving and investment in rising productivity and economic growth? Dr. Schultze answers as follows:

Rising productivity involves an increase in our ability to harness the forces of nature, for supplying power, transporting goods, and manipulating materials. This, in turn, requires not merely scientific and technical knowledge, but the provision of expensive plant and equipment. It requires, in other words, capital. And capital goods are not "free". They must be produced using labor, materials, and machines that might otherwise have been utilized to turn out consumer goods. Providing the labor force with an increasing supply of machinery and equipment involves *saving*—the Nation must refrain from consuming part of its output so that resources may be free to produce capital goods.¹⁴

Dr. Schultze then goes on to point out that growth in productivity depends not only upon workers having more capital goods at their disposal but better capital goods. The latter depends upon technological progress. He notes:

Thus, although the accumulation of capital and technological progress can be thought of as two distinct sources of economic growth, they are intimately related. Without the other, each could make only a limited contribution to growth. Much of technological progress is embodied in new capital. Much of the contribution of new investment to economic growth is due not to the additional capital per se, but to the new technology that it carries with it and that could not be introduced without it.¹⁵

The above quotations are in the classical tradition in stressing the great importance of saving and investment in economic growth. Under conditions of full employment such as exist today, and as will continue if our national economic objectives are to be achieved, increasing the money supply, beyond the monetary expansion needed simply to carry out transactions on a rising national income basis, would go largely to produce an increase of the general price level. In a slack economy, such as in 1961-64 when the country had idle labor and plant capacity, capital formation could be financed out of an increase in the money supply without precipitating an increase in the general price level. But, under conditions of full employment, the only sound way to finance capital formation is by means of saving. An even more rapid rate of real economic growth than we have hitherto enjoyed, which would permit the country to raise its objectives, would require an increase in the "full employment savings" which the economy generates.

THE FACTS ABOUT PRIVATE PENSION FUND SAVING AND INVESTMENT

What are the facts about private pension fund saving and investment? Using the national income accounts prepared by the U.S. Department of Commerce, the following picture of the importance of pension fund saving emerges:

¹⁴ Schultze, p. 118.

¹⁵ *Ibid.*, p. 122.