

United States had been held considerably below its potential because of too low a rate of saving. He found that the demands for capital financing will be very large in coming years, and that high levels of consumption are likely to continue. Therefore, he concluded, the supply of savings in the years ahead will be inadequate, and he strongly recommended measures to encourage a higher rate of saving. Kuznet's principal conclusions are well summarized in the following quotation:

The above treatment of conditions for the future, far too brief and dogmatic, may carry a sense of firmer conviction than is intended. The discussion reflects conclusions suggested by the record of this country's economy—an economy geared for a longrun rise to increasingly high levels of consumption per capita, and one in which savings and capital formation, though large and sustained, nevertheless have been kept within moderate proportional limits by the secularly high propensity to consume. It is also an economy in which the recently increasing diversion of product to current consumption by governments, combined with high levels of consumer demand, has limited capital formation and savings proportions and brought about, under conditions of full employment, rising price levels which have persisted even through the 1958 recession. Against this background, consideration of the prospective large rise in population numbers—particularly of new family-makers, entrants into the labor force, and of the school-age groups—the prospective acceleration of potential technological change and the prospect of continued international competition and strain suggest the following prospects. First, the demand for capital over the coming two and a half to three decades is likely to be large. Second, drains upon the national product for current consumption by governments will continue to be proportionately sizable and may well rise. Third, high levels of consumption and the high secular propensity to consume by individuals and households are likely to continue. Fourth, under the circumstances, the supply of voluntary savings may not be adequate. Finally, inflationary pressures may well continue, with the result that part of the savings needed for capital formation and government consumption will be extracted through this particular mechanism. Yet, extrapolation of inflationary pressures over the next 30 years raises a specter of intolerable consequences, making the policy solutions adopted critically important; and those solutions, in turn, will affect the structure and pattern of financial intermediaries and their role in financing.²⁴

The views of Sommers, Lecht, and Kuznets, as well as those in the Joint Economic Committee study, are characteristic of the great majority of economists today. The American economy has great potential for vigorous growth in the years ahead. Public policies will be directed to maintaining full employment and faster growth. If growth is to be realized soundly and without a sharp rise in the general price level, the rate of saving will have to be high. It follows, therefore, that pension plan savings should be encouraged—not discouraged, as some of the passages in the joint committee print would seem to suggest.

PRIVATE PENSION SAVINGS AND LONGRUN INVESTMENT PLANNING

Economists have long recognized that cyclical fluctuations in capital spending have played a major role in the general business cycle. A fundamental objective of public policy must be to introduce greater regularity and sustainability in the flow of investment expenditures. Pension savings serve this purpose well, for two main reasons: (1) they are contractual in nature and hence flow with regularity and predictability into the institutions administering the funds; and (2) a high proportion of pension savings are invested on a forward commitment basis which facilitates longrun planning by business and industry of their capital expenditures.

²⁴ Kuznets, pp. 459–460.