

private component in a mixed system is held by the majority of those concerned, there are still important considerations as to how the present system might be improved through public policy.

### I. FUNDING

A major question raised is whether or not present funding arrangements for private plans should be changed. On the one hand some observers propose an increase in funding requirements, while others question the necessity for the current level of funding in the majority of plans. Which of these views should national policy encourage? It is true that there is little need to fund a tax supported plan such as OASDI. The same thing might be said for private plans taken as a whole. Theoretically it is surely correct that there is little need for funding beyond a small liquidity reserve for plans sponsored by growing industries and companies. Under such circumstances pensions can be paid out of future earnings. On the other hand, declining industries and firms should have fully funded plans. Since there are always declining industries and firms, if companies are to be treated alike, national policy should require full funding of all plans for employees to be protected properly. If companies are to be held to different funding requirements, how would one go about deciding which firms will grow and which decline? The U.S. economy is dynamic, and, therefore, it is difficult to forecast with certainty which companies and industries will grow for a 5- to 10-year period ahead let alone for the period of a 30- or 40-year pension obligation.

Today most financial analysts and economists would undoubtedly agree that the telephone-communications industry and the air-transport industry are growing; therefore, no funding should be necessary. Fifty years ago similar agreement would have concluded that funding was unnecessary in the traction, coal mining, railroad, and telegraph industries. Today the private traction industry is virtually dead, employment in railroads is declining and a major company in the telegraph industry faces financial problems because of the lack of a funded pension plan. Funding protects retirement income of workers several decades away, and it would be unwise to base a funding policy on the presently anticipated growth of individual firms or industries. Therefore, all plans should be as fully funded as financial resources permit unless there is a universal reinsurance program for all liabilities. Such a reinsurance program, we believe, is undesirable for reasons indicated below.

It has been argued that full funding leads to excess savings in the economy and overly conservative investment policies. To suggest that the economy is subject to oversavings is to take a narrow view. Worldwide needs for capital are undoubtedly far in excess of savings. The problem is not one of excess savings but rather one of developing effective channels of investment. Indeed, it has been argued that the growth of pension fund assets has provided a major impetus to the development of U.S. capital markets.<sup>5</sup> The need for worldwide investment is so great that the U.S. has had to put restrictions on the

<sup>5</sup> For further development of this argument see: Sidney E. Rolfe, *Capital Markets in Europe*, sponsored by Atlantic Community.