come to those who control the concentrations of property that have been created to serve our workers * * *. The growth of these new powers along with the powers already in the hands of the corporations is producing a society whose economic life is based on a structure of the power that results from the control of property. It is not a society organized by individual property ownership and diffused power. Property ownership is not the organizing principle; power is.

In an article in their publication, *Business Conditions*, for September 1966, the staff of the Federal Reserve Bank of Chicago found 1965 net receipts of private and State and local pension funds to be $12 billion. They found these funds heavily invested in corporate stocks and bonds. They found the market value of these funds to exceed the total assets of savings and loan associations or of life insurance companies, exclusive of reserves of the insured pension plans. Stocks now represent the major portion of the new investments. The article concludes:

A number of questions arise concerning the growing common stock investments of private pension funds and State and local plans * * *. First is the question of control or lack of control over managements of firms in which stock is purchased. There is little evidence that pension fund managers have attempted to use their voting powers to control operating management. In fact, many trustees specifically avoid any participation in annual meetings or proxy fights. But here is a dilemma. These trustees are among the most knowledgeable stockholders and presumably have a duty as well as a right to scrutinize and criticize the activities of firms in which they hold shares.

A broader question arises about the economic effects of pension funds stock purchases. Newly issued bonds or mortgaes provide the funds for new investments but common stock is purchased almost invariable in a "second-hand" market. Money is transferred from the funds to existing holders of stock certificates. No data are available on the use of funds by individuals who liquidate stocks. Experience of pension funds with stock investments has been "favorable" in that capital gains have been achieved * * *. The apparent success of the decision to invest in stocks has been validated in large degree by the purchases of those making the decisions. Pension fund managers buy stocks expecting prices to rise and it may be that prices have risen in large degree because pension funds have directed a large portion of their net inflow to stock purchases.

Pension programs tend to become virtually a contract form of savings which are relatively inflexible and not significantly reduced during economic downturns. Trust funds, therefore, may well be said to be a built-in destabilizer rather than a built-in stabilizer. As the size of funds increases and the annual outlays for such programs increase, it may become more and more important to examine the impact of the flow of these funds on the economy.

This brings up an even larger question about tax policy, investment, and corporate structures: against the market value of common stock last year, roughly $3 was paid out on each $100 of value and $4 of earnings was retained. Present tax concessions to capital gains continue to encourage this process and have operated to discourage the use of new issues of common stock to raise funds for the corporate enterprise. It would be more equitable to distribute corporate earnings to the stockholders. Those whose tax rates were low would rather have cash dividends than capital gains. Those whose tax rates were high have no special reason in equity or in economic policy to be favored with a tax concession. Management would then undertake to issue new common stock to provide additional investment capital for its expansion. This would mean that investors including pension funds could buy new shares rather than simply bid up existing stocks.