

and investment seem to us to be far more important. Apart from private savings the only other sources of investment funds that we can think of are monetary expansion and government saving. We would like to be strongly on record to the effect that neither of these other sources constitutes a safe substitute for private savings in the investment markets. In the light of the heavy demands the various objectives of national policy are placing on the economic system, the need for additional investment in almost all lines of endeavor should place a high premium on private savings, private savings from any source at any time. We think it would be a grave mistake in public policy if the Government were to move in any way that would discourage the further growth of the private pension system and the saving it furnishes to the American economy.

MERTON BERNSTEIN: STRENGTHENING PENSION EQUITIES
THROUGH EMPLOYEE CONTRIBUTIONS AND A CLEARING HOUSE OF
CREDIT

The declining use of contributory plans is widely thought to be a direct consequence of the Federal tax law under which employer contributions to plans are tax deductible but those of employees are not. So, for example, in 1949 the pattern-setting Basic Steel Industry Fact Finding Board recommended noncontributory plans because, among other considerations, each dollar of the tax deductible employer contributions would result in more benefits than employee dollars which would first be taxed as income and then, after subtraction of taxes, contributed.

This trend away from contributory plans may have been, and probably was, accelerated when it was found that an employee can be given a raise equal to his own pension contributions without increasing his current taxes by having the employer assume the employee's pension contribution. This means an increase in take-home pay without an increase in employee income tax and, as a result, a raise which probably costs the employer less than a taxable wage increase.

Unions and employees are kidding themselves, it seems to me, if they honestly believe that a noncontributory plan results in greater economic benefits for employees than contributory plans. The evidence on benefits vesting—as far as it goes—is against them; opinion of informed commentators is against them; their own position on OASDI financing is against them. Maturity and realism should counsel that, as with social security, employees have greater security and more leverage in the operation of contributory than noncontributory plans. Moreover, we have seen how ineffectual the antidiscrimination provisions of the code regulations and rulings may be; so that, in fact, where employee separations are numerous, employer contributions can redound mostly to the benefit of management officials. In contrast, whatever dollars are contributed by an employee are practically universally returnable to him, often with interest upon separation—and, as observed, vesting has been more common in contributory plans.

The revival and expansion of the contributory method would be a powerful, practically self-enforcing preventive measure against favoring the management elite, for it would be impossible to divert