

ABSTRACTS OF PAPERS INCLUDED IN PART V: *Financial Aspects of
Pension Plans* of OLD AGE INCOME ASSURANCE

JOHN O. BLACKBURN: THE MACROECONOMICS OF PENSION
FUNDS

A striking feature of history in the U.S. is the rapid growth and spread of pension arrangements which involve a degree of compulsion—both with respect to public and private institutional arrangements. Pension claims by households against public and private institutions now represent a major financial instrument. As a form of financial saving, or as a means of channeling household savings into the hands of investing sectors, pension equities already funded amount to some \$175 billion. If unfunded pension claims were included, the sum would be larger by several hundred billion. Indeed, by some ways of reckoning total pension obligations, they may exceed in the aggregate all other types of financial claims except common stocks.

From the standpoint of the household, a claim to future payments constitutes an asset which might be measured as the discounted present value of future payments already earned. The corresponding liability, from the standpoint of the paying sectors, is the discounted present value of future payments likely to be made on the basis of work already performed by each employee. Viewed in this light, the aggregate “asset” of households and “liability” of pension-paying sectors is a roughly calculated \$720 billion. Since there are some conceptual and computational difficulties in measuring pension claims on a present value basis, our analysis is of funded claims.

Under neo-classical assumptions of smooth full employment adjustments in interest rate, prices, and capital output ratios, an increase in the share of income and output saved would pose no problems. Under post-keynesian assumptions, additional savings induced by pension plans again need not threaten either price stability or full employment. However, the years following 1957 were either years of unemployed resources or Federal budget deficits or both. The only post-1957 years in which private investment absorbed private saving forthcoming at more or less full employment were 1965 and 1966. The Federal budget on a national income accounts basis had a slight surplus in those years. Yet that volume of private investment, abetted until late 1965 by monetary ease and longer still by the investment credit and liberalized depreciation rules, may well turn out to be unsustainable.

If pension saving does raise the implied full employment growth rate in output beyond that consistent with the growth in the labor force and labor productivity and if the capital-output ratio, interest rate, profit rate and technological developments do not easily reconcile these divergent rates, then a balanced budget economy would tend toward