Non-OASDHI funds now total some $150 billion; in 1980 they will likely reach $350 to 470 billion, depending on developments in coverage, funding practices and like variables. The implications of this development reach into many areas in the economy and raise many questions. For example, the share of the national wealth which is owned through pension fund intermediaries will rise from the present 6 to 7 percent to some 10 percent. Nevertheless, the major issue is the impact of pension saving on aggregate saving and the resulting public deficits which might be required to keep the economy in the neighborhood of "full employment" somehow defined.

If one takes the view that our major problem has been that of too little saving, then there is no policy problem at all. In the "oversaving" case, which I think on balance to be the most likely case, Federal policies might take two directions: one is to realize the growth rate implied by a savings share and savings level which tends to outrun "sustainable" investment through measures to accelerate technological change, along with other measures to raise the rate of increase in labor productivity. A second direction is a fiscal policy resulting in a growing Federal debt. An alternative policy which seems to merit careful consideration is the development of a reinsurance plan which will assure employee benefits but require a lower level of funding for private plans. As it bears on funding practices, reinsurance is a policy substitute for Federal deficits.

HENRY AARON: THE SOCIAL INSURANCE PARADOX

If the sum of the rates of growth per capita wages and population exceeds the rate of interest and if the rate of interest equals the marginal rate of time preference and the marginal rate of transformation of present into future goods, then the introduction of some social insurance pensions on a pay-as-you-go basis will improve the welfare position of each person. If saving and, hence, investment and, hence, the rate of growth of income are reduced as the level of social insurance increases, this conclusion does not necessarily follow. If the rate of growth is uneffected, the effective rate of return on premiums paid for such social insurance will exceed the marginal rate of time preference and, consequently, people in the active labor force would willingly forgo some current consumption in order to obtain such returns. Individually they are unable to do so; collectively they can.

If a small trust fund is accumulated, the proceeds from which are invested, the addition to welfare will be smaller than if no fund is accumulated and, in the limiting case of a full reserve, no increase in welfare will occur.

If the rate of interest exceeds the sum of the rate of growth of real wages and the rate of growth of population, then introduction of social insurance either on a pay-as-you-go or a funded basis will reduce welfare, unless (a) market imperfections render the preexisting situation suboptimal, (b) the social welfare function calls for income redistribution, or (c) there are economies of scale in social insurance.
