

IMPLICATIONS FOR ECONOMIC STABILITY

Pension and disability benefits clearly operate as contracyclical influences in the direction of economic stability. Retirements tend to increase when employment opportunities wane. The level of contributions, especially in private plans for the funding of past service liabilities and in profitsharing plans, is sensitive to changes in corporate profits. Income maintenance is aided by rising benefits in periods of slack employment, and pension saving declines slightly in periods of less active demand for business capital investment.

In any case, the regularity of benefit payments is another of the built-in stabilizers in the economy. Public and private pension programs will continue to provide a growing share of the income payments not susceptible to cyclical variations in aggregate economic activity.

The question has been raised as to whether pension saving is not too stable in times of deficient aggregate demand for consumer goods and services. As a consequence, it is argued, the cyclical changes in saving rates which contribute to stability are muted by the regularity of pension saving. One answer is that the limits on the variability of pension saving are not entirely indigenous to the pension structure. In the case of private plans, indeed, corporate managements have preferred to use variable contributions as a method of averaging income. Public regulation to assure the fulfillment of pension promises seeks to regularize contributions and so does the Internal Revenue Code. Financial analysts and the public accounting profession seek regular recognition of pension costs as they are incurred and not when flexible contributions are actually made to the fund. Also, variability in employer contributions is not feasible under the budgeting practices of State and local governments.

Essentially, however, the reality is that pension systems are not well designed to provide variability in saving flows. The long-term nature of their contracts calls for regularity in provisions to meet them. Finally, equity investment is a major outlet for the saving flow, and there is some presumption that rates of return will prove higher on investments made during periods of slack economic activity. The stabilizing influence of pension fund investing on the secondary market for equity securities would diminish if pension saving flows were permitted to be highly variable.

One of the most important aspects of economic stability is the question of inflation. We have repeatedly observed that inflation can erode the value of pension promises and warned that, unless the burden of income transfers is willingly borne by the working members of society, they will acquiesce in policies which lighten the burden by inflation. This unfortunate outcome of the pension movement is not now in sight. But neither has the full burden been felt. The volume of claims to be presented has only well begun its long rise. Capital formation at a high level has spurred real output. Pension saving in the future may contribute less to this progress if, in fact, saving is the limiting factor on economic growth.

As we move into the period of substantial rise in benefit payments and witness the diminishing pace of pension saving, it will be necessary to adjust fiscal policy to the changing situation. Again, the availability of more precise measures of possible future effects of income redistribu-