III Pension Programs, the Redistribution of Income, and Saving

THE PRECEDING CHAPTER'S overview of the characteristics and financing of pension programs highlighted the past, present, and potential future aggregate flows of income which the programs generate. We examined the development of a network of arrangements designed to transfer income (goods and services in real terms) to individuals no longer in the work force. This income is transferred from other individuals, of course, in a variety of ways. This process and its possible economic effects are the subject of this chapter.

PUBLIC PROGRAMS

The Primary Role of OASDI

As we have seen, the major factor in the current and future collection of receipts and distribution of benefits is the Old-Age, Survivors, and Disability Insurance system. A possible effect of creating these expectations of old-age and survivor benefits is that individuals would save less in other forms. That is, they would substitute the accumulation of claims against the system for other financial or tangible assets. Because coverage has become so close to universal, it is not possible to test this possibility by comparing the saving behavior of large groups of people not covered by OASDI with those who are covered.

In Chapter IV, below, we deal systematically with the question of the impact of other accumulations of pension claims on aggregate saving. This is done by examining the saving behavior of households similar in most characteristics except coverage under a plan which supplements OASDI. In the absence of a similar approach to determining the effect of OASDI coverage on saving in other forms, we turn to the reasoning developed by Cagan and Katona as discussed in Chapter IV.

In essence, their hypothesis is that the promise of some minimum level of income in old age stimulates motivation to supplement it in other forms. These forms have included supplemental pension plans, life insurance, and liquid-asset holdings. It is common practice, for example, for life insurance agents to provide information about OASDI benefits to prospective purchasers of their policies. This approach succeeds because the agent can present a program for improving the adequacy of financial security to be built upon a base which already exists. This is similar to the experience with life insurance provided to members of the armed forces; on balance, it has encouraged the sale of policies by agency companies.

The evidence summarized in Chapter IV supports the view that the creation of equities in the OASDI system has not served as a substitute for saving in other forms. Widely expressed fears that individuals would lose their incentive to save if this comprehensive protection were provided have proved to be without foundation. However, the limitations of the body of evidence on saving behavior should be kept in mind. To be more precise in describing experience since the adoption of OASDI, we should state the conclusion in these terms:

1. With social insurance providing a basic level or "floor" of protection against the hazards of old age, disability, and death, the record shows that it has been a stimulus to other individual and group programs to serve the same ends.

2. The increases in OASDI benefits have not kept pace with improvements in real living standards. To date, the program has not provided an increasing share of total old-age income objectives.

3. We have no body of assembled evidence, therefore, as to what would be the effect upon saving in other forms of achieving a goal of "adequacy" as it might be defined in relation to some widely accepted concept of living standards.

Robert M. Ball, the Commissioner of Social Security, urges that we consider social security rather as a retirement system than as an antipoverty program, pointing out that it is the only retirement system for 80 per cent of the beneficiaries. He argues that a test of adequacy is relevant and timely.[1] Similarly, the President's 1967 Budget Message discusses proposed changes in benefits in terms of adequacy.

From what we know about the saving function of individuals, it is impossible to specify the level at which prospective benefits cease to stimulate saving in other forms and begin to inhibit it. The type of analysis made by Cagan is a contribution to the search for reliable evidence, but does not suggest answers which would necessarily be applicable to a program of the size and scope of OASDI. Revisions of a universally applicable system can be expected to change the attitudes and expectations of a whole society.

Nevertheless, it is essential that this question be studied so that, if decisions to move toward a concept of adequacy are made, their consequences for saving in the economy may be taken into account. This is not to say that economic factors should control. After all, fiscal policy could be modified to offset the effects of changes in OASDI if the possible effects were known and recognized. Changing the balance of saving and investment in the economy without analysis of the long-range consequences will not contribute effectively to the attainment of living standard goals for citizens of all ages and circumstances.

[1] Robert M. Ball, "Policy Issues in Social Security," *Social Security Bulletin,* June 1966, pp. 3–9.

The possible effects on saving habits of changing retirement income expectations is, however, only one aspect of the operation of OASDI. It may be the most significant aspect, but it relates only to the matter of saving motivation. The other major economic aspect of the system is its role as a collector of taxes and as a simultaneous distributor of benefits. The growing volume of transfer payments can have important economic effects on a current basis.

Early in our research program, John J. Carroll undertook a thorough exploration of the possible effects of the whole range of tax-supported programs.[2] Such analysis depends upon a host of assumptions about the shifting and incidence of taxes, the consumption function, and consequences of changes in the distribution of income.

For example, Carroll assumed that the employee's share of the payroll tax is not shifted at all, but that the employer's share is shifted to the extent of two thirds forward to the consumer and one third backward to the employee.[3] For the benchmark year 1957, families with incomes below $4,000 were estimated to have contributed about 25 per cent of the payroll taxes and to have received about 75 per cent of the benefits. The net gain to the lower-income groups represented about 52 per cent of the benefit payments. The transfers were largely from the middle-income groups.

These figures are illustrative of the power of the OASDI system in redistributing income, whether or not they measure the magnitude precisely. If we make the usual assumption that the marginal propensity to consume of families receiving benefits is materially higher than that of those bearing the costs of the program, we can

[2] The methodology employed in dealing with OASDI was developed in his monograph *Alternative Methods of Financing Old-Age, Survivors, and Disability Insurance,* Michigan Governmental Studies No. 38, Institute of Public Administration, 1960. The results of the National Bureau analysis were presented to the Advisory Committee for comment in the form of "Some Notes on the Redistributional Effects of Mandated Pension Programs" and are the basis for the relevant analysis in this chapter.

[3] The effects of alternate assumptions on the shifting and incidence of the payroll tax were also calculated.

conclude that the result is in the direction of an increase in consumption and a reduction in saving. The calculation of transfers between income brackets is obviously more reliable than estimates of the impact on consumption and saving. In the latter case, we have to estimate family expenditure patterns, not just their income levels.

Carroll's analysis uncovered many gaps in the availability of reliable current information. Some of these gaps are being filled by the Social Security Administration and other agencies. It is not altogether visionary to expect that in the future we shall be able to consider revisions in the OASDI tax and benefit structure from three points of view: (1) the level of benefits in the light of changing living costs and standards, (2) the actuarial balance between receipts and benefits over the visible future, and (3) the effects of the projected redistribution of income on consumption and saving.

The same type of analysis is also relevant to choices between increases in the tax rate and increases in the maximum earnings base to which it is applied. There are a number of considerations in making such choices other than the extent of income redistribution involved, yet surely this is relevant to the comprehensive design of the over-all tax and expenditure policies of the federal government.[4]

Apart from the redistribution of income between income classes, social security transfers claims for goods and services from one age group to another. The productively employed meet the cost of benefits to those no longer at work. When the level of benefits is improved and taxes are increased, the young worker may be paying more than the cost of his prospective benefits. Some students of the system argue that this will ultimately create dissatisfaction on the part of those most important in raising productivity. Of course, the young workers may rest content with the notion that their turn to enjoy improved benefits will come eventually. Or they may be amenable to an erosion of the real value of old-age income promises

[4] The long-range research program of the Social Security Administration includes most of the topics mentioned here.

by inflation as a means of lightening the impact of the transfers. While such questions undoubtedly have some substance, it is by no means clear that these are additional considerations not already taken into account in the spending and saving decisions of the individuals concerned.

Other Contributory Government Programs

The other major contributory governmental programs are Railroad Retirement, Federal Civil Service, and state and local government retirement systems. Compared with OASDI, Carroll found that for the benchmark year 1957 a smaller fraction of contributions to these programs (9 to 13 per cent) was attributable to the lower-income groups and a somewhat smaller proportion of the benefits paid out (60 per cent). The actual net transfers to families with incomes less than $4,000 were very modest, however, because of the low level of benefit payments relative to contributions in the federal, state, and local government employee systems.

Because of the surplus from their current operations, the Federal Civil Service and state and local government retirement systems provided a net increase in saving after giving effect to the stimulus to consumption of the transfers to lower-income families with higher marginal propensities to consume. In these tax-supported programs, we can see the effects upon saving and the capital markets of the funding process at work simultaneously with the redistributing of income.

Noncontributory Government Programs

Of the two major noncontributory programs supported by general revenue taxation, veterans' benefits and old-age assistance, the latter is the more effective in the redistribution of income. With tax collections distributed across all income groups and benefits allocated to the lowest income families, it is evident that this program will stimulate consumption, precisely as it is intended to do.

Veterans' benefits are heavily concentrated among lower income families, but a portion of the service-connected disability payments go to middle and upper middle income families. Carroll found reliable data particularly difficult to assemble in this section of his analysis and his estimates are therefore tentative.

For the benchmark year 1957, these two noncontributory programs generated net transfers to families with less than $4,000 incomes on a substantial scale. The gain to these lower income groups was almost as great as that of OASDI, despite the fact that benefit payments were only 60 per cent as large. Shifting individuals from old-age assistance to the social security benefit rolls or making the corresponding substitution of benefits, then, reduces the income redistribution effects and marginally reduces the shift from saving to consumption. Because these noncontributory programs are supported from general revenues, a major share of the cost is borne by upper middle income and high income groups.

Public Programs as a Whole

Looking at the gain-loss pattern of the six types of tax-supported pension programs mentioned above, Carroll found that families with incomes of less than $4,000 received about $8 billion in 1957 in the form of transfers from families whose incomes exceeded that level. Of this figure, $5.3 billion went to families with incomes under $2,000 per year. The estimated resulting net increase in consumption expenditures was $1.3 billion.[5]

These figures are cited merely to provide an indication of the direction and magnitude of income redistribution effects. The growth in the economy and in the scale of the tax-supported programs requires a complete re-examination of the whole subject. Subsequent research and the development of better data about beneficiaries should make possible greater precision in the definition

[5] These figures for 1957 have little current significance, but they provide some measure of the impact on saving of these programs at a specific point in time. The results are not alarming, but the direction of the effects is clear.

of current alterations in the pattern of income distribution, spending, and saving.

Much more important, however, is the need for developing the data and related models to permit a simulation of the future economic effects of alternative decisions regarding the financing and benefit structure of tax-supported pension programs. Carroll's pilot study of redistributive effects suggests that in the future the growing level of public-plan operations, apart from state and local government retirement systems, will generate a substantial offset to that saving which is done through private plans. This is especially true of the federal noncontributory programs. Rational decision making in this area requires that we develop the data and techniques to verify and measure these possible developments on a prospective basis.

Private Programs

The Saving Aspect

The growth of pension programs for individuals in private employment has been so spectacular since 1940 that attention has been concentrated primarily on the growth in coverage and fund accumulations, a veritable explosion in pension expectations. The response of individuals, as will be shown in Chapter IV, has been to add their growing equities in private pension plans to saving in other forms.

Taking net fund accumulations, exclusive of capital gains, as the measure of saving through private pension plans, the past and projected trend in this form of saving is as shown on p. 42.

These figures are designed to reflect changes in book values without taking account of realized and unrealized capital gains on common stocks and other investments with equity characteristics. They do not recognize, therefore, the addition to assets represented by the equity in corporate retained earnings. This is another way of saying that the earnings on fund accumulations are substantially understated. In Chapter V, we attempt to recognize this factor,

Year	*Addition to Fund Assets (billions of dollars)*
1950	1.8
1955	3.6
1960	5.3
1965	7.6
1970	7.5
1975	7.6
1980	7.4

Source: Institute of Life Insurance, Securities and Exchange Commission, and Holland's projections for 1970–1980.

which became of major significance after 1955, in projecting possible future asset accumulations.

If full recognition were given to appreciation in equity investments at an arbitrary 5 per cent rate, the changes in fund accumulations at market values might be more like \$9, \$10, \$13, and \$15 billion for 1965, 1970, 1975, and 1980. However, if these high returns are realized, there might well be a reduction in contributions because of the earlier achievement of substantially full funding, an increase in benefits, or a combination of the two. In that event, these higher projected levels of saving through private plans based on the recognition of market values would not be realized.

On balance, the trends suggest that the contribution to aggregate saving of these programs for individuals in private employment will be reaching a peak in another decade or so. The implications for capital formation and the capital markets are discussed in Chapter V.

Transfers: The Contribution Aspect

A measure of the dynamic growth in private arrangements is the increase in contributions. The record of the recent past and Holland's projections are as follows:

Year	*Contributions (billions of dollars)*
1950	2.1
1955	3.8
1960	5.5
1965	7.8
1970	8.1
1975	9.3
1980	10.3

Despite the growth of collectively bargained plans, which are rarely contributory, and a gradual reduction in the proportion of conventional plans requiring employee contributions, the fraction of total contributions provided by the employer has apparently remained stable at 86 per cent for the past decade. One dollar of contributions in seven, therefore, represents a form of individual saving by the employee directly analogous to saving through life insurance or any other medium.

The interest earnings of the funds represent a return for currently setting aside the discounted cost of benefits payable in the future. These earnings are presumably shared by the employee and the employer approximately in proportion to their contributions. The fact that the earnings are not taxed gives them full value.

It is more difficult to determine the cost incidence of the employer contribution. It is a part of total employment costs which may be recovered in part by the individual firm if (1) the plan serves to attract more productive employees; (2) it reduces turnover, training expenses, accidents, and spoilage; and (3) it provides for orderly retirements and promotions as a part of more efficient personnel management.

If the employer cost merely substitutes for other forms of compensation, it has been shifted backward to the employee. The incidence is not necessarily either equal or proportionate among individual employees. This shift can take the form of a slower increase in money wages relative to productivity gains. Collective bargaining over a total pay package appears to accept this concept, with pension and other fringe benefits substituted for or added to pay increases in cents per hour. The well-paid and highly-paid employee with long service may welcome this bargaining emphasis. The employer's larger contribution for a more liberal pension benefit is not taxed to the employee currently as income; the tax impact is deferred until retirement, when his effective tax rate will be significantly lower. Within limits, the marginal dollar of employer contribution to pension benefits is worth more to the employee than the incremental dollar of money wages added to his own retirement savings.

A different situation may exist, however, when a pattern plan is negotiated throughout a major industry without regard to productivity gains. Depending upon product demand elasticities, a price rise to recover this added cost may cause a decline in output and employment or a shift from the utilization of labor to other factors of production. The net effects may be extremely difficult to trace. They obviously depend upon the economic environment and other influences at work in the economy at the time.[6]

It appears that the shifting and incidence of the employer's cost will vary with the characteristics of the industry and the firm within it. There is no clear answer to the question but only a limitless array of specific cases. Perhaps the best general conclusion we can reach is that the net cost is probably shifted both forward and backward, with a long-run reduction in corporate profits, and therefore corporate saving, taking place only in marginal instances.

Another "contribution" to private pension programs is the favor-

[6] For a searching discussion of the various possibilities, see Challis A. Hall, Jr., "Retirement Contributions, the Spending Stream, and Growth," *Federal Tax Policy for Economic Growth and Stability*, papers submitted by panelists appearing before the Subcommittee on Tax Policy of the Joint Committee on the Economic Report, November 1955, pp. 786–797. I am indebted to Dr. Thomas E. White for his analysis of the elements of this problem during his participation in the pension research project.

able income tax treatment given to employer contributions and fund earnings. The Office of Tax Analysis of the U.S. Treasury Department made the estimates for the year 1966, shown below.

	Millions of Dollars
Revenue gain from taxation of benefits received in excess of employee contributions after the retirement income credit	+325
Revenue loss from exemption of interest earnings of pension funds at individual tax rates	−550
Revenue loss from not taxing to employees employer contributions as made	−1,150
Net revenue loss	−1,375

Source: *Private Pension Plans,* Hearings before the Subcommittee on Fiscal Policy of the Joint Economic Committee, 89th Congress, 2nd Session, Part 2, May 1966, p. 416.

Other factors being equal, this treatment of qualified pension plans will increase the revenues to be collected from taxpayers in general. Presumably, those not covered by pension arrangements share in the costs without sharing in the benefits. These tax benefits are, of course, equally applicable to the retirement systems for government employees. Also, in the case of OASDI, all of the benefit payments are exempt from taxation, with the result that there is no deferred recovery of income taxes from the recipients.[7]

Transfers: The Benefit Aspect

The most dynamic phase of the growth in private programs is the current and prospective increase in the flow of benefit payments. The record of the recent past and Holland's projections show this trend:

[7] A possible change in this treatment of benefits is under discussion. An anomaly in the present method of tax treatment is the increase in the value of the benefits to an individual with substantial other income in retirement.

Year	*Benefits (billions of dollars)*
1950	0.4
1955	0.8
1960	1.8
1965	3.2
1970	4.7
1975	7.3
1980	10.6

The bulk of private pension benefits, almost by definition, go to individuals who have had regular employment for an extended period at good levels of compensation. Also, the benefit structure is moderately progressive (i.e., providing a higher proportion of higher compensation) to counterbalance the reverse pattern of OASDI. A recent large sample of industrial plans shows the typical range for the growing proportion of final pay plans:

Average Annual Compensation During Final Years of Service (dollars)	*Median Benefit Range Exclusive of OASDI (per cent)*
4,500	26–30
8,000	31–35
15,000	31–35
35,000	36–40

Source: Bankers Trust Company, *1965 Study of Industrial Retirement Plans.*

Since we are uncertain about the incidence of contributions, it is not feasible to estimate a redistribution of income between family income classes as a result of transfers through private pension programs. We may suspect that the redistributive effects are less than in the case of state and local government retirement systems, but how much less is open to question.

Some insight into the distribution of beneficiaries by income class can be gleaned from the *Statistics of Income*. Federal income tax returns for 1964 on which at least one taxpayer was 65 or older show the following reported income from pensions and annuities (taxable portion):

	Number of returns		Taxable income reported	
Adjusted gross income classes	*Thousands*	*Percentage of Total*	*Millions of Dollars*	*Percentage of Total*
Under $5,000	918	69.7	1,369	57.2
$5,000 to $9,999	260	19.7	581	24.3
$10,000 or more	140	10.6	444	18.5
Total	1,318	100.0	2,394	100.0

Source: Internal Revenue Service, *Statistics of Income, 1964, Individual Income Tax Returns*, Publication 79, January 1967, p. 90.

Presumably, a large number of individuals had small benefits but were not required to file returns.

These data do not distinguish the source of the pension or annuity income, but they suggest that the benefits in a recent year went predominantly to middle-income family units. Private plans could not have had a materially different pattern from the public programs also included.

If employer contributions are largely shifted, and at least in part to employees, it would appear that the effects of transfers between income brackets work moderately in the direction of increasing consumption, but at least for the present the impact cannot be substantial.

Pension Programs as a Whole

Our exploration of the redistributive effects of the whole range of public and private pension programs has produced only tentative conclusions. It has uncovered gaps in information which our resources could not hope to remedy. The fruitfulness of further research and information gathering about family incomes and budgets is evident. The intelligent appraisal of alternative programs requires that this type of research be pursued with the aid of improved information and techniques of analysis.

The present and prospective transfers of income between age groups are more easily measured. In a sense, they represent the degree of success which has been achieved by the pension structure. For these claims to be honored in full in real terms, individuals must surrender a portion of current output either in exchange for promises of benefits in the future or in payment of tax assessments. That is to say, workers during their active years, on the whole, defer consumption to their years of retirement. In programs covering large groups, it is almost certain that the present value of the future benefits to individual participants will be somewhat greater or less than the consumption they forgo in the present. Such individual gains and losses will be minimized, however, if the benefit formula is equitable and the plan has been in effect for an extended period.

Under a pension plan in the design of which individuals have had an opportunity to express their views, i.e., a voluntary or negotiated plan, this kind of arrangement appears to involve no special burden on the individual participant. While the saving feature may be compulsory and the utility of retirement income may vary between individuals depending upon their preferences and expectations, the burden of participation in a plan characterized by equity and uniformity is not material.[8] Wage-and-service-related benefit plans covering individuals in public and private employment, therefore, do not involve significant burdens.

Tax-supported old-age benefits, on the other hand, involve the burdens characteristic of any element of the revenue gathering and distributing structure. The transfers between income brackets,

[8] This conclusion does not ignore the reality of possible income transfers from younger to older workers, from men to women, from transient to career employees, and among individuals in different income classes.

which social insurance is designed to make, set up a pattern of gains to those who earned less and losses to those who earned more during their years of active employment. But this is no special characteristic of pension arrangements; it is common to almost all segments of the tax structure which involve the redistribution of income among income classes and age groups.

There is evidence to the effect that a program involving greater income redistribution creates greater resistance to that program on the part of those bearing the burden of the transfers. In a study of social security systems around the world, Henry Aaron found that countries relying more heavily on general revenues tend to spend less on social security in proportion to national income than countries relying more heavily on payroll taxes to finance benefits.[9]

The gain-loss patterns of social security, veterans' benefits, and old-age assistance, however, cannot be considered apart from the whole structure of transfers involved in the fiscal operations of governmental units. The income redistribution effected by pension arrangements must be examined in the context of the redistribution effected by the personal income tax, excise taxes, or estate and gift taxation. Moreover, it should be noted that to some extent social security programs merely replace voluntary and intrafamily transfers in favor of the aged. The substitution of tax burdens for the individual's own perception of his obligation to an aged or disabled person represents, therefore, a change only in the form of the burden on the active worker.

We conclude that the structure of public and private pensions involves no special burdens which are not characteristic of any broad scale of income transfers over time and across a population with a wide range of incomes and living standards.[10] We also conclude that less burden is involved for individuals in a collective

[9] Henry Aaron, "Social Security: International Comparisons," in Otto Eckstein, ed., *Studies in the Economics of Income Maintenance*, Washington, 1967, pp. 28–29.

[10] For a closely reasoned discussion of this question of burdens, see Daniel M. Holland, "The Pension Structure," *Federal Expenditure Policy for Economic Growth and Stability*, Joint Economic Committee, U.S. Congress, November 5, 1957, pp. 1007–1009.

sense when the full cost of benefits is recognized currently and the excess of future over current costs is funded according to a systematic program. The reasoning runs as follows:

1. The excess of current contributions over current benefit payments, i.e., pension saving, finances capital formation. As a result, productivity gains are greater than would otherwise be the case.

2. As the pension system matures, or comes closer to maturity, the increasing transfers of output to beneficiaries are made from a larger total output. The fraction of the current output transferred from active to retired workers is, therefore, a smaller and less burdensome one.

3. If a cohort of workers over their active working years saves the capital accumulation and the earnings on it to enlarge total output sufficiently to generate the goods and services which will satisfy their claims in retirement, it has placed minimal burdens on other workers.

However, this line of reasoning is based on a series of assumptions which are probably not equally valid. In the first place, it is assumed that investment will expand to absorb the full addition to saving at full-employment levels of output. A study by Simon Kuznets supports this assumption.[11]

Second, it is assumed that benefits are in a fixed relationship to past savings. This is surely not entirely valid. In fact, we know that economic growth and rising living standards will be accompanied by improvements in the level of benefits, involving a supplemental transfer of current output from the working to the retired group. However, if inflation erodes the real value of money claims, the price rise will partially offset this supplemental transfer process.

In summary, the maturing process never ends in a growing economy. There is a rising level of aspirations which results in transfers to retired workers in excess of what they have contributed through pension saving. Our reasoning, therefore, is that the burden of

[11] *Capital in the American Economy: Its Formation and Financing,* Princeton University Press for NBER, 1961.

pension benefits is lessened when they are provided at least in part from additions to saving which has been employed in incremental capital formation to expand real output. This should be true on the average for individual burdens and for the burden on the productivity of the economy as a whole. One of the conditions promoting this result is a minimal effect on the incentives of those engaged in production.

Pay-as-you-go arrangements and those which use the taxing power of government to make transfers of income are, in this sense, the most burdensome pension programs since they entail no contribution to capital formation.[12] We should be cautious about reaching fixed conclusions on these matters. Within broad limits, the tolerance levels of individuals to accepting burdens and limitations on their expenditure decisions are not fixed for all time. We know that people can and do adjust to all kinds of circumstances, including burdens. This process takes place slowly and is greatly aided by a sense of equity in the division of the costs incurred. The role of economic analysis is to measure, more effectively than in the past, the incidence of cost burdens and the distribution of benefits. If this is done well, the choices and decisions on priorities among programs to enhance the level of living will be made, not by prototypes of the economic man, but by an electorate better informed of the economic consequences of efforts to meet desired social objectives.

In broad perspective, the limitations on what the American economy can "afford" to provide in the way of income maintenance to older members of the population are costs (burdens of transfers) incurred and the conflicting claims of other high-priority objectives for its dependent members. That is, education of dependent children competes for resources against better living standards for de-

[12] Pay-as-you-go plans of industrial organizations or of government, of course, need not be more burdensome in every case. Contributions not made to fund future costs may be directly invested to produce future productivity gains from which rising benefit payments can be met. The after-tax return from these direct investments must be persistently high relative to the cost of capital from other sources to make pay-as-you-go programs less burdensome than those which are systematically funded.

pendent senior citizens. The limitations are real resources and the willingness of individuals to share gains in real income. The federal government's tax-supported programs are essential to deal with the large number of cases in which a stable employment relationship does not exist. On balance, they are no more burdensome per dollar of expenditure, and perhaps less so in the case of OASDI, than a wide range of public service activities.

Funded employee retirement plans, whether public or private,[13] involve less burden on the incentives of those actively engaged in production. Through the saving and investment process, they finance the economic progress which produces higher retirement living standards. This is presumably the rationale for deferring the incidence of income taxation on growth in the individual's pension equity. In essence, it is also an answer to the question: What difference does it make whether now and in the future a greater proportion of retirement incomes is provided under private auspices or under tax-supported governmental programs?

[13] In this context, there is no distinction between the retirement systems of state and local governments and the plans for individuals in private employment, since both generate private saving and the financing of activities which enlarge the output of goods and services.