Economic Aspects of the Pension Problem

Workers Pay the Cost of Their Pension Benefits Themselves

Whenever a law or labor union pressure burdens the employers with an additional expenditure for the benefit of the employees, people talk of “social gains.” The idea implied is that such benefits confer on the employees a boon beyond the salaries or wages paid to them and that they are receiving a grant which they would have missed in the absence of such a law or such a clause in the contract. It is assumed that the workers are getting something for nothing.

This view is entirely fallacious. What the employer takes into account in considering the employment of additional hands or in discharging a number of those already in his service, is always the value of the services rendered or to be rendered by them. He asks himself: How much does the employment of the man concerned add to the output? Is it reasonable to expect that the expenditure caused by his employment will at least be recovered by the sale of the additional product produced by his employment? If the answer to the second question is in the negative, the employment of the man will cause a loss. As no enterprise can in the long run operate on a loss basis, the man concerned will be discharged or, respectively, will not be hired.

In resorting to this calculation the employer takes into account not only the individual’s take-home wages, but all the costs of employing him. If, e.g., the government—as is the case in some European countries—collects a percentage of each firm’s total payroll as a tax which the firm is strictly forbidden to deduct from wages paid to the workers, the amount that enters into the calculation is: wages paid out to the worker plus the quota of the tax. If the employer is bound to provide for pensions, the sum entered into the calculation is: wages
paid out plus an allowance for the pension, computed according to actuarial methods.

The consequence of this state of affairs is that the incidence of all alleged “social gains” falls upon the wage-earner. Their effect does not differ from the effect of any kind of raise in wage rates.

On a free labor market wage rates tend toward a height at which all employers ready to pay these rates can find all the men they need and all the workers ready to work for this rate can find jobs. There prevails a tendency toward full employment. But as soon as the laws or the labor unions fix rates at a higher level, this tendency disappears. Then workers are discharged and there are job-seekers who cannot find employment. The reason is that at the artificially raised wage rates only the employment of a smaller number of hands pays. While on an unhampered labor market unemployment is only transitory, it becomes a permanent phenomenon when the governments or the unions succeed in raising wage rates above the potential market level. Even Lord Beveridge, about twenty years ago, admitted that the continuance of a substantial volume of unemployment is in itself the proof that the price asked for labor as wages is too high for the conditions of the market. And Lord Keynes, the inaugurator of the so-called “full employment policy,” implicitly acknowledged the correctness of this thesis. His main reason for advocating inflation as a means to do away with unemployment was that he believed that gradual and automatic lowering of real wages as a result of rising prices would not be so strongly resisted by labor as any attempt to lower money wage rates.

What prevents the government and the unions from raising wage rates to a steeper height than they actually do is their reluctance to price out of the labor market too great a number of people. What the workers are getting in the shape of pensions payable by the employing corporation reduces the amount of wages that the unions can ask for without increasing unemployment. The unions in asking pensions for which the company has to pay without any contribution on the part of the beneficiaries have made a choice. They have preferred pensions to an increase in take-home wages. Economically it does not make any difference whether the workers do contribute or do not to the fund out of which the pensions will be paid. It is immaterial for the employer whether the cost of employing workers is raised by an increase in take-home wages or by the obligation to provide for pensions. For the worker, on the other hand, the pensions are not a free gift on the part of
the employer. The pension claims they acquire restrict the amount of wages they could get without calling up the spectre of unemployment.

Correctly computed, the income of a wage earner entitled to a pension consists of his wages plus the amount of the premium he would have to pay to an insurance company for the acquisition of an equivalent claim. Ultimately the granting of pensions amounts to a restriction of the wage earner’s freedom to use his total income according to his own designs. He is forced to cut down his current consumption in order to provide for his old age. We may neglect dealing with the question whether such a restriction of the individual worker’s freedom is expedient or not. What is important to emphasize is merely that the pensions are not a gift on the part of the employer. They are a disguised wage raise of a peculiar character. The employee is forced to use the increment for acquiring a pension.

The Same Government That Offers Pensions Reduces Their Purchasing Power

It is obvious that the amount of the pension each man will be entitled to claim one day can only be fixed in terms of money. Hence the value of these claims is inextricably linked with the vicissitudes of the American monetary unit, the dollar.

The present Administration is eager to devise various schemes for old-age and disability pensions. It is intent upon extending the number of people included in the government’s social security system and to increase the benefits under this system. It openly supports the demands of the unions for pensions to be granted by the companies without contribution on the part of the beneficiaries. But at the same time the same administration is firmly committed to a policy which is bound to lower more and more the purchasing power of the dollar. It has proclaimed unbalanced budgets and deficit spending as the first principle of public finance, as a new way of life. While hypocritically pretending to fight inflation, it has elevated boundless credit expansion and recklessly increased the amount of money in circulation to the dignity of an essential postulate of popular government and economic democracy.

Let nobody be fooled by the lame excuse that what is intended is not permanent deficits, but only the substitution of balancing the budget over a period of several years for balancing it every year. According to this doctrine in years of prosperity budgetary surpluses are to be
accumulated which have to be balanced against the deficits incurred in years of depression. But what is to be considered as good business and what as bad business is left to the decision of the party in power. The Administration itself declared that the fiscal year 1949 was, in spite of a moderate recession near its end, a year of prosperity. But it did not accumulate a surplus in this year of prosperity; it produced a considerable deficit. Remember how the Democrats in the 1932 electoral campaign criticized the Hoover Administration for its financial shortcomings. But as soon as they came into office, they inaugurated their notorious schemes of pump-priming, deficit spending and so on.

What the doctrine of balancing budgets over a period of many years really means is this: As long as our own party is in office, we will enhance our popularity by reckless spending. We do not want to annoy our friends by cutting down expenditures. We want the voters to feel happy under the artificial short-lived prosperity which the easy money policy and a rich supply of additional money generate. Later, when our adversaries will be in office, the inevitable consequence of our expansionist policy, viz., depression, will appear. Then we shall blame them for the disaster and assail them for their failure to balance the budget properly.

It is very unlikely that the practice of deficit spending will be abandoned in the not too distant future. As a fiscal policy it is very convenient to inept governments. It is passionately advocated by hosts of pseudo-economists. It is praised at the universities as the most beneficial expedient of “unorthodox,” really “progressive” and “anti-fascist” methods of public finance. A radical change of ideologies would be required to restore the prestige of sound fiscal procedures, today decried as “orthodox” and “reactionary.” Such an overthrow of an almost universally accepted doctrine is unlikely to occur as long as the living generation of professors and politicians has not passed away. The present writer, having for more than forty years uncompromisingly fought against all varieties of credit expansion and inflation, is forced sadly to admit that the prospects for a speedy return to sound management of monetary affairs are rather thin. A realistic evaluation of the state of public opinion, the doctrines taught at the universities and the mentality of politicians and pressure groups must show us that the inflationist tendencies will prevail for many years.

The inevitable result of inflationary policies is a drop in the monetary unit’s purchasing power. Compare the dollar of 1950 with the dollar of 1940! Compare the money of any European or American country with
its nominal equivalent a dozen or two dozen years ago! As an inflationary policy works only as long as the yearly increments in the amount of money in circulation are increased more and more, the rise in prices and wages and the corresponding drop in purchasing power will go on at an accelerated pace. The experience of the French franc may give us a rough image of the dollar thirty or forty years from today.

Now it is such periods of time that count for pension plans. The present workers of the United States Steel Corporation will receive their pensions in twenty, thirty or forty years. Today a pension of one hundred dollars a month means a rather substantial allowance. What will it mean in 1980 or 1990? Today, as the Welfare Commissioner of the City of New York has shown, 52 cents can buy all the food a person needs to meet the daily caloric and protein requirements. How much will 52 cents buy in 1980?

Such is the issue. What the workers are aiming at in striving after social security and pensions is, of course, security. But their “social gain” withers away with the drop in the dollar’s purchasing power. In enthusiastically supporting the Fair Deal’s fiscal policy, the union members are themselves frustrating all their social security and pension schemes. The pensions they will be entitled one day to claim will be a mere sham.

No solution can be found for this dilemma. In an industrial society all deferred payments must be stipulated in terms of money. They shrink with the shrinking of the money’s purchasing power. A policy of deficit spending saps the very foundation of all interpersonal relations and contracts. It frustrates all kinds of savings, social security benefits and pensions.

Government Spending Is No Substitute for Capital Accumulation

How can it happen that the American workers fail to see that their policies are at cross purposes?

The answer is: they are deluded by the fallacies of what is called “new economics.” This allegedly new philosophy ignores the role of capital accumulation. It does not realize that there is but one means to increase wage rates for all those eager to get jobs and thereby to improve the standard of living, namely to accelerate the increase of capital as compared with population. It talks about technological progress and productivity without being aware that no technological improvement can be achieved if the capital required is lacking. Just at the in-
stant in which it became obvious that the most serious obstacle to any farther economic betterment is, not only in the backward countries but also in England, the shortage of capital. Lord Keynes, enthusiastically supported by many American authors, advanced his doctrine of the evils of saving and capital accumulation. As these men see it, all that is unsatisfactory is caused by the inability of private enterprise to cope with the conditions of the “mature” economy. The remedy they recommend is simple indeed. The state should fill the gap. They blithely assume that the state has unlimited means at its disposal. The state can undertake all projects which are too big for private capital. There is simply nothing that would surpass the financial power of the government of the United States. The Tennessee Valley project and the Marshall Plan were just modest beginnings. There are still many valleys in America left for further action. And then there are many rivers in other parts of the globe. Only a short time ago Senator McMahon outlined a gigantic project that dwarfs the Marshall Plan. Why not? If it is unnecessary to adjust the amount of expenditure to the means available, there is no limit to the spending of the great god State.

It is no wonder that the common man falls prey to the illusions which dim the vision of dignified statesmen and learned professors. Like the expert advisers of the president, he entirely neglects to recognize the main problem of American business, viz., the insufficiency of the accumulation of new capital. He dreams of abundance while a shortage is threatening. He misinterprets the high profits which the companies report. He does not perceive that a considerable part of these profits are illusory, a mere arithmetical consequence of the fact that the sums laid aside as depreciation quotas are insufficient. These illusory profits, a phony result of the drop in the dollar’s purchasing power, will be absorbed by the already risen costs of replacing the factories’ worn-out equipment. Their ploughing back is not additional investment, it is merely capital maintenance. There is much less available for a substantial expansion of investment and for the improvement of technological methods than the misinformed public thinks.

Pension Benefits Depend on Capital and Investment

Looking backward fifty or a hundred years we observe a steady progress of America’s ability to produce and thereby to consume. But it is a serious blunder to assume that this trend is bound to continue. This past progress has been effected by a speedy increase of capital accumu-
lation. If the accumulation of new capital is slowed down or entirely ceases, there cannot be any question of further improvements.

Such is the real problem American labor has to face today. The problems of capital maintenance and the accumulation of new capital do not concern merely “management.” They are vital for the wage earner. Exclusively preoccupied with wage rates and pensions, the unions boast of their Pyrrhic victories. The union members are not conscious of the fact that their fate is tied up with the flowering of their employers’ enterprises. As voters they approve of a taxation system which taxes away and dissipates for current expenditure those funds which would have been saved and invested as new capital.

What the workers must learn is that the only reason why wage rates are higher in the United States than in other countries is that the per head quota of capital invested is higher. The psychological danger of all kinds of pension plans is to be seen in the fact that they obscure this point. They give to the workers an unfounded feeling of security. Now, they think, our future is safe. No need to worry any longer. The unions will win for us more and more social gains. An age of plenty is in sight.

Yet, the workers should be worried about the state of the supply of capital. They should be worried because the preservation and the further improvement of what is called “the American way of life” and “an American standard of living” depends on the maintenance and the further increase of the capital invested in American business.

A man who is forced to provide of his own account for his old age must save a part of his income or take out an insurance policy. This leads him to examine the financial status of the savings bank or the insurance company or the soundness of the bonds he buys. Such a man is more likely to get an idea of the economic problems of his country than a man whom a pension scheme seemingly relieves of all worries. He will get the incentive to read the financial page of his newspaper and will become interested in articles which thoughtless people skip. If he is keen enough, he will discover the flaw in the teachings of the “new economics.” But the man who confides in the pension stipulated believes that all such issues are “mere theory” and do not affect him. He does not bother about those things on which his well-being depends because he ignores this dependence. As citizens such people are a liability. A nation cannot prosper if its members are not fully aware of the fact that what alone can improve their conditions is more and better production. And this can only be brought about by increased saving and capital accumulation.