

ICI VIEWPOINTS

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Mutual Funds at 100: An Essential Part of America's Economic Engine

By Jeff Naylor

Mutual funds and other registered investment funds direct trillions of dollars to their highest use, with investments that help turn breakthrough ideas into commercial successes and make thriving companies even better. In doing so, these funds play a crucial role in America's economic success—and the world's.

But as we celebrate the 100th anniversary of mutual funds, investment funds in general stand at a crossroads. Some policymakers have introduced smart ways to [modernize](#) and [fortify](#) funds for the benefit of investors, while others have proposed extreme changes that [pose risks to fund shareholders](#) and [the companies](#).

With American innovation and job growth seemingly as strong as ever, it's vital that policymakers take stock of funds' role in the economy as they weigh potential changes. Here are a few of the ways investment funds support economic progress:

Capital Formation: Funds supply more than \$30 trillion to US financial markets by pooling money from investors to build diversified portfolios of stocks, bonds, or other securities, including through direct investments in primary markets. This capital formation process allows businesses to fund expansion, research and development, and other capital-intensive projects. It also helps governments finance infrastructure and essential services that all individuals rely on.

Foster Innovation: Funds' role in providing capital to businesses extends well beyond large, publicly traded corporations. In fact, funds pave the way for small firms to access funding that might otherwise

be out of reach, leading to innovations and discoveries that stimulate economic growth.

Job Creation: By facilitating capital flows to businesses and governments, funds contribute to job creation. When companies receive capital for growth and expansion, they often hire more employees, invest in plants and machinery, and contribute to overall economic activity. Local and national governments also create jobs when they utilize this capital to invest in transportation projects, power plants, or other critical infrastructure.

Financial Security: Funds provide retail investors access to a wide range of investment opportunities they might not have had otherwise. This access gives everyday Americans the chance to participate in the success of companies worldwide and earn potential returns to [reach longer-term financial goals](#), whether it's saving for education, homeownership, or retirement.

The Wealth Effect: Through their potential to generate positive returns, funds have enabled a sharp rise in household wealth over the past century. This has aided what economists call the *wealth effect*—consumers' increased confidence and propensity to spend because of rising asset values—that supports growth in the real economy.

Market Efficiency: Funds help create efficient markets by allocating capital based on careful risk/reward considerations. By directing capital to companies with sound fundamentals or strong upside potential, funds over time help align market prices with intrinsic values, promoting efficient resource allocation and economic productivity.

Investment funds have helped make America the world's economic leader while supporting commercial breakthroughs globally, lifting the lives of millions and providing endless opportunities for companies to grow. Provided the right policy framework is in place, funds are well-positioned to propel the US economy to even greater heights in the century ahead.

Learn more about the unique history and significant impact that mutual funds have had on individual investors and businesses over the past century at www.ici.org/mf100.

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