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KEYNES AND INFLATION

by Arthur Pedoe

Rarely a day passes without the name of Keynes being mentioned in the financial press. We now have President Nixon's announcement of the price and wage freeze, the cutting loose of the American dollar from gold, etc. Reading the comments on the President's action, one seems to be reading again the discussions and criticisms of John Maynard Keynes' theories and suggestions. Keynes died 25 years ago.

In the February 1971 issue of *The Actuary*, Keynes name is mentioned in a review by Ed Wells of my text on life insurance and pensions. I quoted Keynes' views on debauching the currency as a heading to the chapter on Inflation. Ed Wells thought it curious that Keynes got a peerage for pressing views on government expenditures resulting in the debauching of the British pound which he had so strongly condemned. A re-examination of Keynes' idea is important in view of President Nixon's action, particularly to actuaries.

The quotation is from *The Economic Consequences of the Peace* in which Keynes, attached to the British delegation involved in the Treaty of Versailles following World War I, attacked the Treaty. It was prophetic about the evils of inflation:

"Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. . . . Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hid-

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WELCOME

We welcome to the Chicago Office, Mr. Bernard A. Bartels who took office on January 1 as Administrative Officer of the Society.

ACTUARIAL SCIENCE PROGRAM AT GEORGIA STATE UNIVERSITY

by Robert W. Batten

Georgia State University in Atlanta has been the center of actuarial education in the Southeast since 1958. Aided by both the financial and moral support of the Southeastern Actuaries Club, the University's program at present includes approximately 80 students working toward a Bachelor's, Master's, or Doctor's degree.

The actuarial science program is part of the Department of Insurance in the School of Business Administration. An advantage of being a part of the Business School is that an actuarial science student is able to enroll in courses in insurance, economics, finance, accounting, business law, computer sciences, management, marketing, international business, and real estate—courses not provided in the School of Arts and Sciences. However, the student takes all of his basic mathematics courses from the Department of Mathematics and takes about one-third of his total course work in other departments of the School of Arts and Sciences. So he has the best of both worlds.

The undergraduate student's program consists of background courses in the humanities, social sciences, and business-related disciplines, and of 45 quarter hours in actuarial science courses covering basic actuarial principles and all ma-

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CONSUMERISM IN CINCINNATI

by Thomas Mitchell

Three topics on the relationship of consumerism and life insurance were discussed by a panel at the Oct. 6 meeting in Cincinnati of the Actuaries Club of Indiana, Kentucky and Ohio. Panel members were Kenneth E. DeShelter, Director of Insurance for the State of Ohio, Dale R. Gustafson, and Abbas Yoursi, Ph.D., Chairman of Insurance Department at the University of Cincinnati.

Judge DeShelter suggested the areas where the life insurance industry was most vulnerable to attack from consumer advocates were: (1) misrepresentation of product (basically advertising and sales presentations); (2) inability to find a legitimate basis of cost comparison; and (3) failure to bring pressures to bear in controlling medical costs.

Mr. Gustafson mentioned four areas of vulnerability, but made it clear that vulnerability does not imply guilt. Three areas are the size and accumulation of assets and economic power by the industry, aloofness and slowness to change in the past, and the public image of the insurance industry. The public does not distinguish between the various kinds of companies, auto, life, health, etc. but sees the industry as a whole and transfers criticisms of one branch indiscriminately to all.

The fourth area is our distribution system. Insurance is a "highly touted socially desirable product that nobody wants to buy." This results in an adversary sale situation, which in turn gives rise to higher distribution costs and makes it more difficult to control sales excesses.

Professor Yoursi pointed to the unmet needs for useful social investments, particularly in urban real estate, and also mentioned the accumulation of wealth.

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Keynes and Inflation

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become "My lord"? One should realize the extraordinary times in which Keynes worked and the acute problems for which he sought to find answers.

President Roosevelt in his 1932 election campaign made a strong commitment to have a balanced budget and reduce government expenditure and began his Presidency with an economy drive and a slash in public pay. This was before the inauguration of the New Deal in 1933.

In 1936 Keynes published *The General Theory of Employment, Interest and Money*. It has been described as one of history's major intellectual achievements and largely revolutionized economic theory. It is basically an analysis in terms of fundamental economic principles of the causes of unemployment. It was addressed to his professional colleagues and is a difficult book to read. Keynes sought to show governments how, by controlling the level of demand, they could ensure "full employment." This may be defined as when reasonably efficient workers willing to work at current prevailing wage-rates do not find themselves unemployed as a result of too little demand.

Keynes was confident that by government action one could cure the great social evils of unemployment and poverty without the alternative of state socialism. In the years since Keynes outlined his theories the very success of the action has created conditions from which has sprung another problem: rising prices, against which the action is largely ineffective. Apart from the problem of controlling demand, there are the problems of labour union power challenging that of management and the state, profit levels in industry, and prices set by huge concerns which dominate an industry and are in effect a monopoly although subject to anti-trust laws. Any government attempt to control these factors is called a "Prices and Incomes Policy."

One may ask what Keynes had to say about these emerging problems, particularly rising prices and inflation.

In 1937 Keynes suffered a severe heart attack. When war broke out in 1939 he was attached as a consultant to the British Treasury, which used him as an emissary to the United States in the many financial problems arising out of armament purchases and war finance.

Actuarial Meetings

- Feb. 15, Actuaries Club of Philadelphia
- Feb. 15, Chicago Actuarial Club
- Feb. 16, Seattle Actuarial Club
- Feb. 16, Nebraska Actuaries Club
- Feb. 16, Actuaries Club of Des Moines
- Mar. 9, Baltimore Actuaries Club
- Mar. 15, Actuaries' Club of Des Moines
- Mar. 15, Seattle Actuarial Club; Portland Actuarial Club (Oregon)
- Mar. 20, Chicago Actuarial Club
- Mar. 22, Nebraska Actuaries Club, Omaha
- Mar. 28, Actuaries Club of Hartford

Keynes was a man who got involved in a multitude of tasks little related to those mentioned here. He was a master of detail and took charge of most operations with which he was connected. One is astonished at the burdens permitted to fall on the shoulders of a man subject to recurrent heart attacks. After the war ended (1945) he was the emissary arranging a major loan from the United States to restore Britain's shattered finances. He died early in 1946. Lord Keynes' reputation as one of the greatest Englishmen of his age has increased as the years have passed. The world has been moving Keynes' way.

The question arises what would Keynes have done facing the problems of our day. He believed that the state would have to intervene at many points, yet he was essentially, an individualist. President Nixon is preparing to face a major world problem and it is to be hoped that he will succeed. Inflation is destructive of saving—in particular of long-term saving; life insurance and pensions are particularly vulnerable. □

SOCIAL SECURITY NOTES

Murice C. Hart and Jane M. Ceccarelli.—"History of the Provisions of Old-Age, Survivors, Disability, and Health Insurance." Social Security Administration, June 1971.

This 10-page booklet traces major legislation for the OASDHI system from 1935 to the present replacing legislative histories published earlier. The arrangement is by topic. The section about the benefit formula gives by implication the rationale for the seemingly clumsy formula now in effect.

Free copies may be obtained from the Office of the Actuary, Social Security Administration, Washington, D.C. 20201.

Georgia State

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terial included in the first three Society examinations.

An exceptional high school graduate could pass Part 1 as a freshman and thus be able to complete the courses in life contingencies as an undergraduate. Most students, however, do not attempt Part 1 until sophomore year and, take the probability and statistics courses as juniors and the numerical analysis, interest theory courses as seniors.

The candidate for the Master of Actuarial Science degree completes courses in life contingencies, graduation, demography, construction of tables, and administrative practices, and several elective courses from areas such as social insurance, group insurance, pensions, life insurance accounting, operations research, and insurance law. In addition, the Master's candidate takes an actuarial science seminar course in which he makes an in-depth study of some actuarial topic included on the Fellowship Examination syllabus.

Actuarial science is one of the fields of study which may be chosen by a candidate for the degree of Doctor of Philosophy in Business Administration (Ph. D.) or Doctor of Business Administration degree (D.B.A.).

Georgia State also conducts actuarial seminars at various times during the year for Parts 1 through 7. These seminars have helped actuarial students who have been preparing through self-study while engaged in full-time employment. Advance testing permits the student and his employer to assess his readiness to benefit from the seminar, as the seminar can do no more than help with the student's final preparation. Marginally prepared students are discouraged from attending. During the last six years, more than 170 students have been successful on actuarial exams taken immediately after attending a preparatory seminar at Georgia State.

Persons desiring further information may contact Robert W. Batten, Department of Insurance, Georgia State University, 33 Gilmer Street, S.E., Atlanta, Georgia 30303. □

ERRATUM —

On page 1, third column, 1st paragraph, misspelling of Cincinnati.

Our apologies,
THE PRINTER