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The Actuary

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CHOICE

or

On First Looking at the Program for the Annual Meeting

There's Health Insurance and Health Care
Shall I go there? Shall I go there?
I surely need a clear directive
For getting Pension Plans in Perspective
And Corporate Diversification
At the Optimum Level of Population.
Group Benefits to those Surviving
While to Price Individual Insurance striving.
And Marketing Problems of various sorts
Repose in Interim Financial Reports.
There's Corporate Models and Corporate Planning
Economy and Federal Policy panning.
And Pension Fund Investment Measures
And Variable Life Insurance treasures.
And Underwriting and Issue Expenses
And Persistency figures to dull the senses
To say nothing of Product Controversy
And Capital Gains and Losses—mercy!
The Casualty Actuary's View of Risk
I hope will be challenging, brief, and brisk.
Consumerism surely means more consumption
At least if the buyers possess enough gumption
There's always Group Government Regulation
And possibly Market Suspense Allocation
And Following-up of Concurrent Sessions
In case you've forgotten your first impressions
Disability Income just Individual
And Settlement Options for claims residual

* * * *

The program is nowhere near its end
There's plenty of sessions left to attend

* * * *

What an array! What an array!
But I'll leave them all till another day
For me, I'll follow the Golden Rule
And get me a suntan by the Pool.

A.C.W.

TO BE CONTINUED

Editor's Note: This is another in t series of articles from the Committee on Continuing Education. The rule is one article to one subject to give the non-specialist in that subject up-to-date general information and to encourage further research in the subject if the reader is so minded. Comments will be welcomed by the Committee and by the Editor.

Must Business Depend On An Increasing Population?

by Kenneth P. Veit

Despite an increasing awareness of over-population, many large corporations encourage population growth as a means of expanding their markets. It would be preposterous to expect corporate management, which perpetuates itself through its ability to generate profits, to support zero population growth if this would tend to reduce profits. But would it?

Our economy is physically capable of producing enough goods and services provide an adequate standard of livi for all. However, people simply don't have enough money to buy that much. But if they did, then expected profits lost through zero population growth could be "replaced" by profits on sales to a more affluent stationary population.

Before I discuss how such purchasing power might be generated, it must be pointed out that an increasing GNP does not necessarily imply a higher standard of living. The GNP is artifically inflated by the increasing costs involved in many types of production, and by the defensive expenditures incurred to protect ourselves from the unwanted side effects of production, neither of which raises the standard of living. But, more importantly, growth in the GNP is to a large extent merely the result of more people, and may indeed bring about a lower *quality* of living.

A higher average standard of living will only come when there is a better allocation of available purchasing power among a relatively stationary popul tion. An increasing population tends make more dear the non-renewable natural resources of a nation and intensifies the competition for jobs. The "popu-

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To be Continued

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ation problem" is thus economic as well as geographic.

Wealth is generated by the use of capital as well as by people. In fact, most wealth is the product of capital, not labor. Advances in technology do not increase human "productivity;" they only shift the burden of production from man to machines. An increasing population in a capital-based society merely adds more people to the welfare roles, including "informal" ones involving Government-sponsored make-work projects, union featherbedding and wasteful corporate paper shuffling.

Although Americans preach capitalism, few Americans actually are capitalists—if by "capitalist" one means a person who derives a significant part of his earnings from investment income. In fact, most people are totally dependent on their jobs, economically. Many economists assume that the answer to this difficulty is for the Government to adopt fiscal policies designed to provide full employment. Unfortunately, this "solution" only perpetuates the problem.

A true economic solution must involve the design of a capital distribution system which allows those with unsatisfied needs to accumulate income-producing assets legitimately. Economic justice dictates that each man be entitled to the fruits of his production (including the wealth produced by any capital he owns). Therefore, newly created wealth should be distributed on the basis of production rather than need. This would cause no arguments if each man could satisfy his legitimate needs out of the income he produced. However, since capital produces most of the economy's wealth and is concentrated in relatively few hands, an individual can rarely rely solely on his personal production. Full employment, without governmental redistribution of the wealth produced by capital, will never provide the "fully employed" with sufficient purchasing power to buy all the goods and services produced. On the other hand, history has shown that a welfare state never makes anyone affluent, and is a prime source of social strife.

Installment buying with easy credit for the masses doesn't work either. The total purchasing power of the consumer is not increased by extending him credit. On the contrary, credit is simply an advance against future purchasing power, less interest charges. Everyone is familiar with the fact that the buyer of a house pays for it at least twice, due to compounding interest charges.

An ambitious and workable solution has been proposed by Louis Kelso. His answer is to make virtually everyone an owner of sufficient capital to generate enough investment income to raise each family's total earnings to a reasonable level. But how can the "have-nots" be enabled to join the "haves" without confiscating the property of the rich? Kelso's answer is the Second Income Plan which would enable those without substantial assets to acquire *newly created* capital and pay for it out of the income it produces, in precisely the same way that businesses now expand.

In well-managed businesses new capital assets will generate enough income to pay for themselves within a few years. Unfortunately, our tax laws favor companies which retain earnings for use in expansion, rather than paying them out in dividends to stockholders. The result is that only those who already have money to invest have access to newly created wealth. This could be reversed by some simple changes in our tax laws to make it more attractive for companies to pay out their income as dividends and to finance their capital requirements through issuing new stock rather than by retaining earnings.

If widespread national affluence is to be achieved, the real purchasing power of the average person must be expanded and extraordinary amounts of new capital are needed to produce what his new buying power will consume. Kelso proposes that this new capital be financed through the sale of securities to IRS-approved employee Trusts.

The corporation wishing to raise capital would set up a trust fund and sell it newly issued stock. Once the stock is paid for, the employees will receive a "second income" in dividends from the Trust in the same manner as distributions are received by participants in qualified pension and profit-sharing plans. The funds to pay for the stock are borrowed by the Trust from a bank or other lending institution, and the corporation makes annual contributions to the Trust sufficient to pay off the loan. The contributions are made out of profits generated by the additional working capital coming from the sale of the stock.

Because the Trust is IRS-approved, these contributions are tax-deductible. This results in a lower after-tax cost to the corporation than would traditional borrowing, as *its capital requirements are financed from pre-tax gross earnings rather than after-tax net income.* Furthermore, because of this feature, the equity of existing stockholders is minimally diluted.

Minor changes in the Internal Revenue Code would encourage corporations to use Trust Fund financing, thus fueling economic prosperity without population expansion. However, even without these changes, a number of companies have found that establishing an employee trust is the answer not only to their capital requirements, but also to their employees' increasing demands for a "piece of the action." □

First, Company gives stock to Trust, then: