



SOCIETY OF ACTUARIES

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BOOK REVIEW

Ashby Bladen, *How to Cope With The Developing Financial Crisis*, 192 pp., McGraw Hill, New York, 1979, \$8.95.

by Stephen L. Brown

This book is about the very serious financial situation in which the U.S. finds itself today. Mr. Bladen writes from the perspective of the professional investor (he directs Guardian Life's investment activities), aiming his comments at the intelligent layman. Given the increasing need for actuaries to understand today's rapidly changing financial and political trends, this volume should be added to every actuary's "must read" list.

In his early chapters the author undertakes to explain some fairly complex subjects—money, credit and inflation—in a practical easy-to-understand manner. He traces the history of monetary systems, from those built upon money possessing intrinsic value up to today's condition in which money with intrinsic value has disappeared completely. He also takes the reader through several historic financial collapses, including the German hyperinflation of the 1920's.

It is also in these chapters that Mr. Bladen takes a few swipes at mathematical academics in general, and economists in particular. Some of his barbs appear to be better aimed than others. He takes theoretical economists to task for failing to take sufficient account of psychological factors; he argues that "changes in the burden of debts upon incomes affect the real economy largely through their impact upon the confidence with which borrowers and lenders view their future prospects"; but less persuasive is his complete dismissal of academic attempts to develop mathematical models of risk and other aspects of the investment process.

(Continued on page 5)

ELECTIONS 1979

The following are the results:

<i>President-Elect</i>	Robin B. Leckie
<i>Vice Presidents</i>	Daphne D. Bartlett Richard Humphrys
<i>Secretary</i>	Myles M. Gray
<i>Treasurer</i>	L. Blake Fewster
<i>Director of Publications</i>	Robert E. Hunstad
<i>Board</i>	James A. Attwood Samuel Eckler Paul H. Jackson Michael B. McGuinness Charles A. Ormsby Anna Maria Rappaport

APHORISM RESULTS

by Charles G. Groeschell,
Competition Editor

The response to the first Competition was good, both in quality and volume. This produces a problem since every entry deserves some reference, but space prevents this.

By far the most prolific entrant was Stuart Marks with 14 aphorisms. Here are five of them:

- Actuaries are a closed group.
- Pension actuaries lead active lives.
- Female actuaries bear new entrants.
- Pension actuaries don't wear a three-piece suit until completion of ten years of consulting experience; (only then are they vested).
- Actuaries are bored with history. The further back in time you go, the more they lose interest.

The first entrant was another Stuart (Klugman) who pointed out that he became a Fellow despite:

If you know the answers to exactly two of the three items on a triple true-false question, your guess at the third will be wrong.

From Robin Block's point of view:

There is nothing worse than demography. Corollary—You don't have to like it, you just have to study it.

Getting started is much more difficult than studying. Corollary—Talking about studying is more interesting than studying.

(Continued on page 8)

A SERVANT AT YOUR CALL—SOFASIM

by John C. Woody

The Society owns, on behalf of its members, a creation remarkable enough to have earned the sobriquet "genie". His, or her—the creature is impartially sexless—full name is Society of Actuaries Simulation Model; thus nicknamed SOFASIM, sō'fa-sim. It's a computer model capable of portraying the operations and future results of all or part of the individual non-par life insurance line of your company or of your competition, from specifications that you choose.

What SOFASIM Can Do For You

When given initial facts as you see them and assumptions you wish to simulate, the computer will produce, for each year simulated, 45 different balance sheets, operating statements, and related financial items. These include after-tax net gains from operations and stockholder dividends, if any; the sums of these will be discounted to the starting date at six percent, nine percent, and 12 percent interest. The final surplus may be discounted to the starting date and added to the discounted sum of stockholder dividends, producing a single index, the company's "present worth."

The model provides, if desired, stochastic (i.e., determined by chance) deaths, lapses, and sales, enabling you to investigate expected variability by Monte Carlo runs. SOFASIM's flexibility even permits you to do Monte Carlo runs on a variable (e.g., the interest rate) for which the model inherently gives no stochastic option. The possibilities are infinite for studying effects of new premiums and cash values, changes in investment policy or in interest rates, or in both, or margins needed in GAAP assumptions.

(Continued on page 6)

Deaths

Alan R. Sullivan, FSA 1961
 Kenneth K. Weatherhead, FSA 1956
 Maurice Wolfman, FSA 1943

Contributions to the Actuarial Education & Research Fund, 208 S. LaSalle St., Chicago, Illinois 60604, in memory of any deceased Society member are acknowledged to the donor and to the member's family.

Letters

(Continued from page 4)

lend some justification to our use of the word, I suggested topics which, it seemed to me, might be considered scientific: "... papers which classify knowledge, which bring new techniques to bear on old problems, or which relate our field to other sciences." (TSA XII, 448). I went on to mention six papers of the previous two years which appeared to fall within my *ad hoc* definition.

James E. Hoskins

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Another Actuarial Trio

Sir:

The clan Campbell now claims our attention and a place in the growing gallery of Triumvirates. Donald Francis Campbell was a charter member of the American Institute of Actuaries and at various times was Treasurer, Editor and Secretary of that body. He died in 1953.

Donald F. Campbell is a charter member of the Conference of Actuaries in Public Practice and served as President 1956-1958.

Donald P. Campbell, the latest member of the clan, became a Fellow of the Society of Actuaries in 1976. The three generations have all served the consulting actuarial firm founded by the first Donald F. Campbell in 1916.

Andrew P. Johnson

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No Time For Trifles

Sir:

In your May issue the puzzling thought raised was why no actuary employed in an insurance company responded to your Special Contest. Might I suggest that those of us employed by insurance companies are spending more of our time in more productive areas.

Gregory S. Strong

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Book Review

(Continued from page 1)

With the shackles of "intrinsic value" money taken away, ability to create credit becomes virtually unlimited. The author points to the compelling factors likely to cause us to continue overusing this facility—greater fondness for (apparent) purchasing power than for productivity, the political value of promising "unearned" purchasing power, the social democratic idea that incomes are a matter of right, and—once inflation really gets going—the rush to borrow to finance purchasing real things viewed as inflation hedges. In this last area Mr. Bladen points to stocks in the 1960's and to commercial real estate in the early '70's (at least that portion of the market invaded by REIT's) as exemplifying the boom-bust phenomena likely to reoccur in different segments of an inflationary economy. He flatly predicts that single family housing is the current "bubble", with similar disastrous results to be expected.

In his chapter, "Where We Went Wrong", the author identifies three aspects of governmental policy that have been carried beyond prudent limits. The first has been the attempt to "over-stabilize" the economy, using monetary and fiscal policy to assure full employment and optimum output, but which has led to endemic and accelerating inflation. The second excess has been in "social democracy", exemplified by giving non-producers larger incomes than some producers, and by providing for a higher level of transfer payments than people are willing to underwrite by taxation. The third problem is the trend toward "totalitarian democracy", which places overwhelming burden on the economy by regulatory zeal and non-economic political mandates. Few in the business community would disagree with these criticisms.

In his chapter on the collapse of the international financial system, Mr. Bladen takes us through some pertinent monetary history, ranging from Athens to the dominant period of the British Empire (and the pound sterling). He documents the causes of the collapse of the U.S. dollar and the fixed exchange system. He points out the danger to the

"REVERSE SEX DISCRIMINATION: MANHART"

A 57-page paper with the above title, written by Spencer L. Kimball, Professor of Law at the University of Chicago and an eminent authority on insurance law, has been published in the *American Bar Foundation Research Journal*, vol. 1979, Winter, No. 1. Reprints are available at \$2.50 each from Publications Dept., American Bar Foundation, 1155 East 60th Street, Chicago, IL 60637.

Actuaries will find new, thought-provoking views on this issue. The author challenges the *Manhart* decision and warns that "its potential for harm is great if the case is misinterpreted and expanded." □

American standard of living posed by a continuing slide in the value of the dollar.

In his concluding chapter the author tells us what he thinks should be done—first from a national viewpoint, then personally. Beyond his advocacy for slowing down the political trends already mentioned, he makes a case for substituting a value-added tax for the income tax, and for changes in our constitutional framework that would permit more rapid fiscal and monetary responses. To us as individuals he makes one recommendation likely to prove rather controversial, viz., selling one's home and renting (at least under certain circumstances). His other recommendations are more routine—e.g., avoiding retirement as long as possible, and careful timing of investments (there are no long-term investments any more).

All in all, Mr. Bladen has written a highly readable and timely book on the severity of our financial problems. Timing the book's release to influence the 1980 elections, he wants us to throw the rascals out, thus perhaps electing a set of somewhat more benign rascals. □

FEDERAL STATISTICS PUBLICATIONS

Reference Manual on Population and Housing Statistics from the Census Bureau.

Available from Subscriber Services Section (Publications), Bureau of the Census, Washington, D. C. 20233 at \$2.00 each payable to Superintendent of Documents (check or money order). This is a guide to population and housing data from the 1970 Census, to assist persons new to census data and as a reference for others.