SOCIETY OF ACTUARIES

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Letters

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and determination of coverage. Nothing less than the future of the profession is at stake. Mr. McMurrich is right in urging us to communicate in terminology that is comprehensible outside the profession and to avoid arguments that may strike the disinterested observer as self-serving. There are many arguments against the disappearance of private insurance, ranging from capital formation to the further erosion of economic, social, and ultimately, political freedom.

Finally, I suggest that any actuary who sees his or her present work as contributing so little to society that he feels guilty about arguing for the preservation of the actuarial profession should reexamine either himself or his career choice.

Peter F. Chapman

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On Adjusted Premiums

Sir:

In calculating adjusted premiums to determine cash values, one normally determines a first year expense factor E′, which is itself a function of the adjusted premium. According to the Jordan text (equation 6.11), there is a unique value for E′ for each specific situation. However, one could calculate several values of E′ if the choices required within the brackets of equation 6.11 were not, or could not be made.

Our calculations have raised the following question regarding the proper adjusted premium: If one solves the complete set of potential adjusted premium equations embodying the different values of E′ described above, under what conditions of mortality, policy type, issue age, or term period, will the smallest resulting adjusted premium always be the correct adjusted premium?

We have not found any counterexamples and yet we know that minimizing E′ shouldn't necessarily minimize the adjusted premium, since E′ is itself a function of the adjusted premium.

Amy Hicks
Jeff Sonheim

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REDISCOVERING MONEY

by Merlin Jetton

I read with great interest Mr. Newton's article, "Pensions in a Moneyless Society," in the October issue. I commend him for recognizing that the problem of maintaining purchasing power in an inflationary economy which the actuary may deal with by indexing, is actually a monetary problem.

I fully concur with his idea that we need a new monetary standard, i.e. a stable measure for economic calculation. Not only do actuaries need it, but all of mankind. Money has generally fulfilled this role historically. Where it has not, the problem is with man, not money.

Money gave man in his economic activities an immediate objective providing a unit in which all economic choices could be adequately expressed. It provided a rational scheme for guiding economic activity via the price system. The spread of the use of money stimulated the division of labor. Money made possible accounting, the operation of large scale enterprises and mass markets, factors which underly the rapid economic development of the past few centuries.

Unfortunately, however, it has never been generally recognized that money should represent *unconsumed goods.* How could it do this? It demands nothing less than a commodity based currency. Mr. Newton doubts the viability of a commodity standard (seeming to recognize only the possibility of a one-commodity standard), but I fail to realize why when it was largely a one-commodity standard which accompanied the Industrial Revolution.

The one commodity unit has its deficiences, but they are few compared to those of fiat currencies. While the one commodity unit can be subject to fluctuations due to non-currency demands, it is invalid to argue that fluctuations in the price of a commodity in the context of another standard (such as the dollar) means the commodity could not be a stable standard.

We have yet, however, to try a currency unit representing a group of commodities. For example, the unit could represent so much steel plus so much petroleum plus so much wool plus so much rubber plus so much gold etc., etc., i.e. an indivisible aggregate of commodities. Though each commodity in the aggregate could be bought and sold in terms of the currency unit, the level of currency units would rise or fall only with a rise or fall in the number of aggregate commodity units.

Contrast this with the world's current monetary systems, in which there is little or no correlation between the level of unconsumed goods and the money supply. In fact the "conventional wisdom" of the Keynesian "pump-primers" calls for the exact opposite. If the amount of unconsumed goods (capital and inventories) is increasing, their solution is to slow down *money supply growth* so that the "economy won't get too hot." If the amount of unconsumed goods is decreasing, their solution is to increase the money supply ("stimulate the economy").

Undoubtedly the loudest criticism of any commodity standard is its inflexibility. The criticism is certainly justified in one sense, but this type of inflexibility is intended — as a guard against the inflationists. An aggregate commodity currency would be most flexible in another way and be able to remain a store of value over long periods of time. Ideally no one commodity would comprise a very large portion of the aggregate and adjustments in the proportional make-up and even in the components themselves could be made as economic (as opposed to political) considerations dictated from time to time with minimal impact on the economy as a whole. A desired goal, of course, would be that the aggregate of commodities would be broadly representative of the general economy in which the currency was used.

How do we get there? That is largely beyond the scope of this article, since my intent herein is only to argue that the inflation problem is solvable. I seriously doubt the possibility of any help from government (as Mr. Newton suggests in the way of issuing pension obligations). In fact, I doubt if we will ever get there without the *denationalization* of money. Perhaps the pension world with its increasing role in the economy could help do this. □