TRANSACTIONS OF SOCIETY OF ACTUARIES
1953 VOL. 5 NO. 11

DIGEST OF FORUM ON ECONOMIC TRENDS AND LIFE INSURANCE

This forum was opened by MR. WILLIAM M. ANDERSON, as moderator. Mr. Anderson referred to the fact that this forum was unique in that guests outside of the membership of the Society of Actuaries were for the first time being invited to conduct a discussion. Accordingly, Mr. Anderson introduced the audience to the speakers and also went on to introduce the speakers. He referred to the fact that actuaries are expected to be competent not only in applied mathematics, but also in other fields such as law, medicine, accounting, investment banking and economics as it relates to the life insurance business. There has arisen an increasing awareness that the combining effect of movement in price levels and interest rates has significant influence in determining the level, pattern and direction of the savings process, and hence the course of the affairs of the life insurance business itself.

Mr. Anderson then referred to the high professional standing of the two economists who were to speak. Dr. Kuznets is recognized as the outstanding authority on national income statistics, and Dr. Goldsmith is outstanding in his studies of saving and the American capital market.

Both Dr. Kuznets and Dr. Goldsmith have been identified with the life insurance business through studies which have been sponsored by the Life Insurance Association of America. Dr. Kuznets is Director of the Study on Capital Requirements being conducted through the National Bureau of Economic Research. Among its basic objectives is to obtain the best possible information as to whether prospective volume of investment outlets will absorb the supply of savings without undue pressure on long-term interest rates. Dr. Goldsmith, who is also assisting Dr. Kuznets in the study just mentioned, is Director and author of the Study of Saving and the American Capital Market, which will provide a most comprehensive picture of the behavior of saving in the first half of this century.

Mr. Anderson then presented in turn, Dr. Kuznets and Dr. Goldsmith. After their respective presentation of papers, Mr. Anderson introduced Mr. Thompson and Mr. Guy, who discussed the papers. He mentioned that the original suggestion for this economic program came from Mr. Thompson, and he referred to Mr. Guy's extensive investment and financial experience in Canada.

DR. SIMON KUZNETS presented a paper entitled "Notes on Pros-

pects of Economic Growth in the United States." His paper was directed to two main questions, (*a*) What are the prospects for the nation's future economic growth? (*b*) What is likely to be the long-term trend in the general price level during the next two or three decades? Predictions were based on the assumption of no major war, yet a continuation of strained international relations, and consequently a diversion of substantial resources to military security and assistance to other countries. In other words, it was assumed that the major characteristics of our economic and social organizations would remain largely the same as in former peacetime periods yet they would be subject to larger external drains.

Dr. Kuznets has considered prospects for future economic growth in terms of an analysis of population and national product. He presented figures in the following Table 1 illustrating the percentage rates of growth per decade for population, gainful workers, and net national product.

TABLE 1

PERCENTAGE RATES OF GROWTH PER DECADE

	1870–1910	1910–50	1930–40	1940–50
Population	23.4	13.2	7.2	14.8
Gainful Workers*	29.8	14.3	11.9	15.0
Net National Product† (1929 prices)	61.1	29.4	22.3	37.9
Net National Product per Capita	30.7	14.3	14.1	19.9
Net National Product per Worker	24.1	13.1	9.3	19.9

* All persons ordinarily engaged in gainful work, whether or not currently employed.

† Total net output of the nation, *i.e.*, all goods sold or produced for consumption by individuals and households, plus *net* capital formation (see definition of latter in note to Table 2).

In comparing the first two columns of Table 1, he pointed out that the rates of growth from 1910 to 1950 are only about one-half of the respective rates for the period from 1870 to 1910. He cited some of the many reasons for reductions in the rates of growth and indicated his opinion that these rates of growth would continue to decline.

Analyses of rates of growth are complicated by marked long swings or alternations. The third and fourth columns of Table 1 show such swings for the last two decades where the rates of growth for 1940–50 are significantly higher than those for 1930–40. In the case of population growth, there is an "echo" effect which gives rise to recurring swings. Presumably, the present decade of the 1950's will witness the effect of the low births of the 1930's and it will be followed by a resurgence in the late 1960's as a reflection of the high birth rate of the 1940's. Long swings in the rates of growth for the labor force and the volume of national product are even more pronounced than in the total population because the labor force and

the national product are more sensitive to economic factors. Dr. Kuznets observed that while there may be some reduction in the amplitude and incidence of business cycles possibly credited to our various anticyclical devices he felt that these effects would not prevent the recurrence of long swings in the rates of growth in the future.

Dr. Kuznets next turned to a consideration of savings, capital formation and maturity. He discussed various definitions of a mature economy and found little merit in the "stagnationist" theory. He pointed out that our economy combined a large potential for growth with an extremely exposed position of economic leadership subject to attack in a divided world. Table 2 was presented showing the ratios of gross capital formation to

TABLE 2

Successive Three Decade Periods	Percentage Proportions of:		
	Net Capital Formation* to Net National Product	Gross Capital Formation† to Gross National Product	Capital Consumption‡ to Gross Capital Formation
1869–1898	13	20	38
1879–1908	13	20	39
1889–1918	13	21	42
1899–1928	12	21	47
1909–1938	9	19	61
1919–1948	9	21	66

* Net capital formation is net additions to capital shown within the country (construction, producers' durable equipment, inventories) plus net changes in claims against foreign countries. Equals gross capital formation minus capital consumption.

† Gross capital formation: gross volume of construction and gross production of producers' durable equipment during the year, plus *net* changes in inventories, plus *net* changes in claims against foreign countries.

‡ Capital consumption: estimated depreciation during the year of fixed capital, *viz.*, of construction and producers' durable equipment.

gross national product; and of net capital formation to net national product.

The ratio of gross capital formation or gross real savings to gross national product remained fairly constant; that of net capital formation to net national product began to slip down; that of capital consumption to total capital formation rose. The most important implication of these figures is that despite the impressive rise in real product per capita, the proportion saved, *i.e.*, the ratio of net capital formation to net national product, in the economy, has actually declined.

The decline indicated in the first column of Table 2 could arise because there were not sufficient investment opportunities for the savings gener-

ated. On the other hand, the situation could occur because with the growth in the economy, there was consistent pressure for higher consumption levels, leading to higher living standards. Dr. Kuznets preferred the latter hypothesis.

As to the future, Dr. Kuznets believed that the proportion of net capital consumption to net national product is likely to remain on a somewhat lower level than has prevailed in the past. He also felt that the proportion of gross capital formation to gross national product is likely to remain more stable even though it may decline somewhat.

The remainder of Dr. Kuznets' remarks related to price trends. He indicated that long-term price trends are far more sensitive to social decisions and wars than are the more fundamental economic totals such as volume of production. Price levels are particularly affected by major wars and the major part of the price inflation develops immediately after the war, rather than during the war years themselves. For example, the price level rose from about 70 in 1913–14 to about 118 in 1917, but jumped to 154 in 1920 (wholesale price index, BLS, base 1926 = 100). In the recent period the same index rose from 87 in 1941 to 106 in 1945, and then jumped to 165 in 1948. After the peaks established from the war and postwar years, there have typically been long downward trends, usually to price levels less than half of the preceding peak. Our recent experience since World War II has been somewhat different for reasons which can easily be associated with the changed international situation represented by the lag in recovery of the rest of the world and the continued war threat. Dr. Kuznets felt that unless war emergencies become more acute we will see a reduction in price levels over a substantial period of time. He does feel, however, that it is quite likely that with our recent experience in manipulating monetary and credit phenomena and our extreme sensitivity to the dangers of unemployment, a downward trend in price levels would terminate somewhat sooner than it has in the past.

The subject of DR. RAYMOND W. GOLDSMITH's paper was "The Supply of Savings and the Level of Interest Rates—Retrospect and Outlook."

In discussing the secular trend of saving in the past as well as the long-term outlook for saving, he felt it best to deal with the ratio of saving to income rather than with the absolute volume of saving. Saving was defined as the excess of current income over current expenditure; or as its accounting equivalent, the increase in earned net worth. If any group of households are examined at a given time, not only the absolute amount of saving but the ratio of saving to income is positively correlated with income, *i.e.*, the higher a household's income, the higher is its saving ratio.

A corresponding relation, however, is not found for the entire economy if one period is compared with another.

Chart I shows that the national saving ratio as well as the personal saving ratio fails to show a definite long-term trend over the last fifty years for which annual data of reasonably reliable character are available.

He pointed out that secular stability does not mean absence of movement from year to year or even for periods ranging up to a decade. The saving ratio has been extremely sensitive to the business cycle throughout the last century, and has shown considerably wider swings than other basic economic magnitudes like income, production or employment. Once cyclical movements are eliminated and allowance is made for distortions created by war or by a depression of exceptional severity and duration like that of the early thirties, the saving ratio, however, shows no definite secular movement.

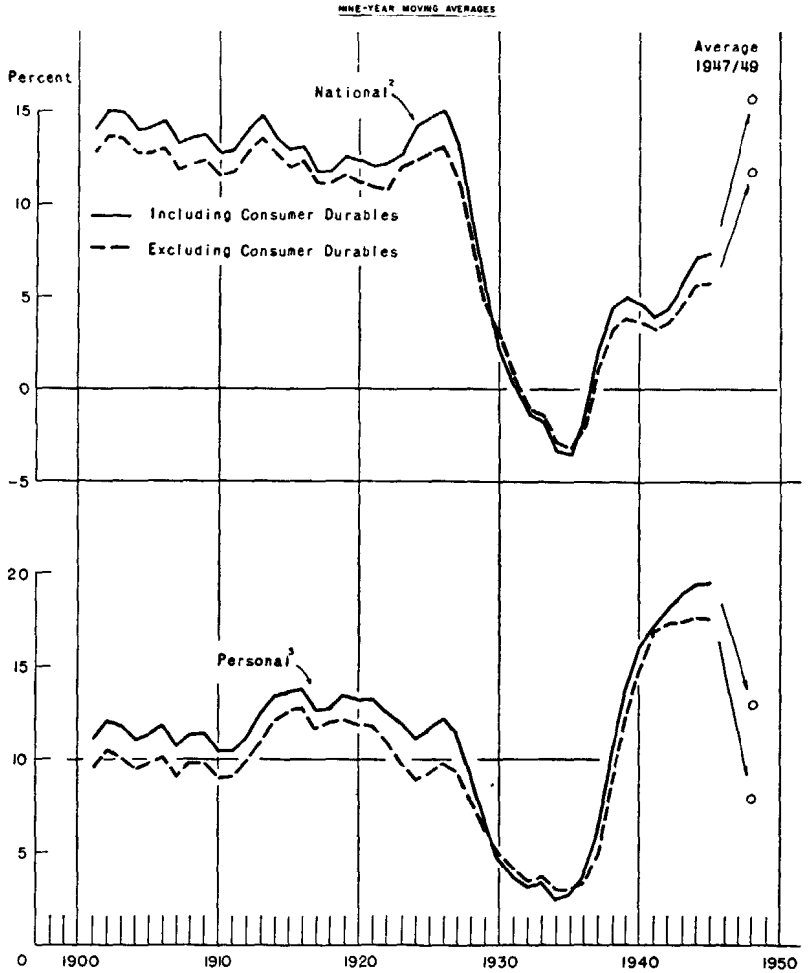
Dr. Goldsmith felt that for the second half of the century the long-term level of the saving ratio might be expected to be approximately the same as, though possibly a little lower than, it has been during the last century—of the order of one-tenth, say. The assumption that the saving ratio will continue during the next one or two generations at the standard level of the first half of the 20th century, or will average but slightly less, means that the absolute volume of saving will increase approximately in step with national income. Thus, aside from the possibilities of changes in the price level, he was inclined to expect under such conditions a long-term increase in the aggregate supply of saving at a rate of $2\frac{1}{2}$ to 3 percent per year. This was based on the assumption of an average population growth of slightly less than 1 percent a year and a continuation of the growth in real income per head at the rate of 2 percent a year which has been standard during the last century. One would then expect the current supply of saving to increase by approximately 30 percent every decade, *i.e.*, to be nearly four times as high as now at the end of the century.

Dr. Goldsmith then turned to the question of the supply of household saving and its distribution among the main forms of saving. During the last fifty years there have been changes in the saving of nonfarm households. These changes are characterized by an increase in the share of saving through consumer durables, of contractual saving, both through private life insurance companies and pension funds, and of saving through social security organizations; and more generally of saving through financial intermediaries. Saving transferred directly from savers to ultimate users of funds, primarily in the form of purchases of securities and mortgages, has shown a tendency to decline in relative importance. He felt it was unsafe to anticipate which forms of saving will increase, maintain, or reduce

CHART I

THE TREND OF SAVING-INCOME RATIOS—SOCIAL ACCOUNTING CONCEPT[1]

CURRENT VALUES



[1] Excludes capital gains and losses; capital consumption allowances based on replacement cost.

[2] Includes personal saving as well as saving of corporations (retained earnings), State, Local and Federal Governments.

[3] Saving of nonfarm households, agriculture, unincorporated business enterprises and nonprofit institutions.

their share in total household saving.He did, however, venture the opinion with some qualifications that the share of life insurance in total personal saving will increase for the next decade or two. This means that the trend toward a rise in the share of life insurance in total personal saving which has been in evidence since the early twenties will continue, though it probably will be less marked. Table 1 was presented giving some figures on this point. This showed that during the first two decades of this century saving through life insurance accounted only for approximately 7 percent of total nonfarm household saving; and that the trend was slightly downward, even if the influences of World War I are disregarded, although at that time there was no competition from pension funds or social insurance. The turning point apparently came in the early twenties. From 1922 to 1929 the share of life insurance in nonfarm household saving averaged approximately 10 percent. It rose to abnormally high levels in the thirties because total saving was exceedingly low. But the share of life insurance saving was decidedly above that of the twenties during the forties as well, as it averaged 17 percent for the period 1946–49. This increase, it should be remembered, occurred at the same time that social insurance and private pension funds made their appearance and grew rapidly. As a result, the share of all forms of insurance saving has risen spectacularly, both in absolute figures and in proportion to total nonfarm household saving. Compared with a share of one-eighth in the twenties, insurance saving in the broader definition in 1946–49 accounted for nearly two-fifths of all nonfarm household saving (including consumer durables).

There were two additional reasons mentioned for an increase in the ratio of life insurance saving and of insurance outstanding to income. The first is the lag in adapting insurance coverage to increases in the price level. The second is a continuation, and possibly an acceleration, of the tendency toward more deliberate insurance planning, a tendency which may be greatly aided by changes and improvements in sales methods, and will lead to a realization that insurance protection often failed to keep pace with the increase in the cost of living, or more correctly in the cost of the very things for which insurance is bought. Such considerations, he added, retain validity only as long as the purchasing power of money does not decline so rapidly or so regularly that it induces a flight from fixed dollar investments.

The second part of Dr. Goldsmith's discussion dealt with the outlook for interest rates. He discussed the hazards of predicting interest and the fact that an empirical approach is really the only possible approach in the light of our present knowledge. Since the middle of the 19th century interest rates have shown two fairly definite long waves of approximately

fifty years' duration. The downswings have lasted considerably longer than the upswings. He presented Chart II which shows a century of yields of high grade long-term corporate bonds, calculated so as to eliminate the influence of changes in their "quality" and thus intended to reflect as well as possible the movements of the basic long-term interest rate. The long-term turning points were the troughs of 1850, 1899 and 1946 and the peaks of 1869 and 1921.

It is noticed also from Chart II that the long waves in interest rates are paralleled by similar waves in the price level. This parallelism, however, is interrupted for the period from approximately 1933 to 1946. He was

TABLE 1

SHARE OF INSURANCE* IN TOTAL SAVING OF NONFARM HOUSEHOLDS

	Private Life Ins. Cos.†	Independent Pension Funds	Govt. Ins. & Retirement Funds	Total
1897–1908	7.1%	.....	0%	7.2%
1909–1914	6.8	.....	0	6.8
1915–1921	5.4	0%	0.3	5.7
1922–1929	10.5	0.6	1.7	12.8
1930–1933	24.0	2.0	0.8	26.8
1934–1938	51.1	2.2	25.2	78.5
1939–1945	12.3	1.4	15.1	28.8
1946–1949	16.9	4.9	16.4	38.2

* Increase in assets of organizations listed, adjusted for change in policy loans and valuation changes.

† Includes fraternal insurance organizations and mutual accident and health associations.

inclined to defer judgment whether this was a disturbance due to special influences or was an indication that the old relationship between movements in interest rates and in the price level has ended.

Dr. Goldsmith was inclined to assume that once a turn occurs in the trend of interest rates it is not likely to be reversed soon, say in less than fifteen to twenty years. There is little doubt that a lower turning point in interest rates occurred in this country in 1946. Thus by analogy, one would therefore expect that the rise in the level of interest rates now under way for six years will continue for not less than another decade and may possibly extend for as long as two decades. He added that it is unlikely that the level of interest rates at the next upper turning point will be as high as at the last upper turning point of the past, *i.e.*, in 1921.

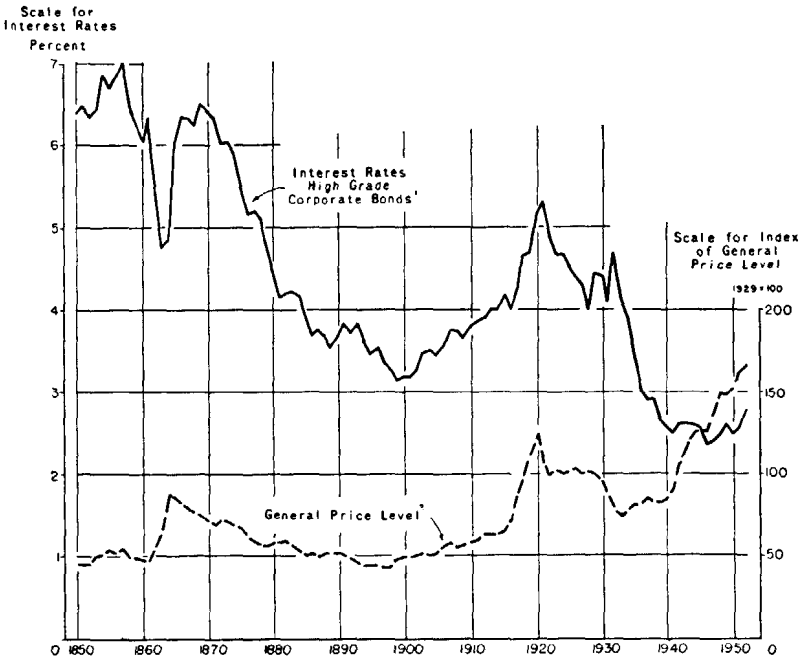
He also felt that there would be a further reduction in interregional in-

terest rate differentials as well as a continuing trend toward equalization of interest rates among different forms of high grade investments.

Dr. Goldsmith concluded by commenting on the fact that he had not mentioned the government's monetary and fiscal policy and its effect on the level of interest rates. He felt that the governmental monetary policy had moved with the trend in pushing interest rates down to very low

CHART II

A CENTURY OF LONG-TERM INTEREST RATES AND PRICES, 1850–1952



[1] Macaulay's figures for high grade railroad bonds for 1857 to 1920 (carried back to 1850 by means of Ayres' index of bond prices); Durand's yield of highest grade new corporate long-term bonds from 1921 on.

[2] Combination of Snyder-Tucker index of general price level from 1850 to 1869; Kuznets' net national product deflator from 1869 to 1929 and Department of Commerce gross national product deflator from 1929 on (adjusted for 1942–45 by Kuznets' index).

levels in the thirties. Governmental policy undoubtedly intensified the movement but did not initiate it, or even extend it for long beyond its natural span of life. Governments took advantage of the fact that it is always possible to reduce interest rates, even close to the vanishing point, if you freely supply funds at whatever level you choose to peg interest rates, provided that you accept open inflation or that you manage to neutralize the extra injections of funds that keep interest rates down.

This either may be done the hard way, *i.e.*, by price, wage and profit controls and by rationing, or may be helped by a sudden increase in liquidity preference of the public. Neither of these neutralizers is likely to be available permanently. Sooner or later the choice will be between a level of interest rates which basically reflects the underlying supply and demand situation without government intervention and continuous inflation at a slower or a more rapid pace. He felt that in this country the choice was made two years ago. As he does not expect this choice to be repudiated for quite a while, he does not feel that monetary or fiscal policy need be regarded as a likely obstacle to the rising trend in interest rates during the next one or two decades, which both historical analogy and the evaluation of basic economic forces seem to indicate.

MR. J. S. THOMPSON in discussion mentioned the importance to actuaries of economics and allied nonmathematical subjects that account for human impulses and actions.

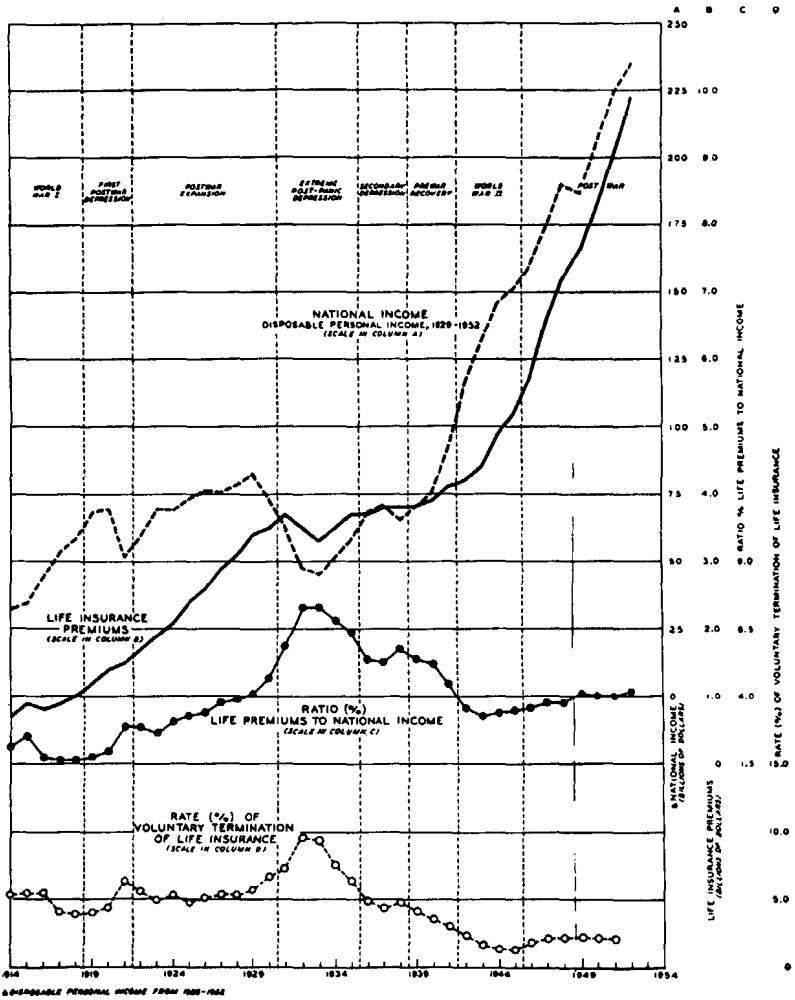
He noted the importance of indexes such as annual National Income or Savings, even though other terminology of the economists who formulated the indexes may be difficult for most of us. He appreciated their several years of work on the Investment Research Program of the Life Insurance Association, the results of which are expected soon in print, and commended research work that concentrates on important objectives rather than immediately profitable ones.

Confining his further comments to (1) savings and savings ratio and (2) trend of interest rates, Mr. Thompson defined "personal savings" for his purposes as did the President's Committee of Economic Advisers, to include (*a*) currency, (*b*) deposits in banks and Savings & Loan Associations, (*c*) increases in life insurance and pension equities, (*d*) investment securities, and (*e*) liquidation of debts.

He submitted Chart III illustrating the parallel trends of (1) disposable personal income and (2) life insurance premiums of U.S. life companies. The slopes of these curves are surprisingly similar, with that for premiums rising generally at a slightly higher rate. Also, he showed curves for (3) ratio of premiums to disposable personal income and (4) rate of voluntary termination of life insurance contracts. These particularly demonstrated that when ratio (3) exceeded 4%, (4) rose sharply in 1930–33. He noted, however, that life insurance assets did grow slowly in the early thirties when savings bank deposits actually decreased 5%. Further indication of the public's growing appreciation of life insurance lies in the fact that although the present ratio of premiums to income is 4% again, the termination rate is hardly above the all-time low of 3%. Still more public appreciation may fairly be expected in the future.

CHART III

Relationship of Total Life Insurance Premiums to National Income (Disposable Personal Income)



Sources: *National Income and Disposable Personal Income*—Annual Economic Review of Council of Economic Advisers, to President of U.S., January, 1953.
Life Insurance Premiums—Spectator Year Book, and Institute of Life Insurance, Fact Book, 1952.
Rate of Voluntary Termination of Life Insurance—Spectator Year Book.

He commented on the remarkable stability of life insurance reserves or assets, ascribing this to its clear objectives and efficient field agencies, but noted also that its continual increase was not at a level rate: 10% per annum in the middle 20's, less than 1% in 1931, 2% in 1933, 7% in 1939 and now for several years 7% again.

The share of life insurance in annual savings, usually over 25%, reached 35% in the late 30's but is now somewhat lower than 25%. He ascribes the relative vitality of the life insurance business in deflationary periods to the companies' field organizations, to the respect for their contracts and to the institution's reputation for conservative management and stability.

He concurred with Dr. Goldsmith's opinion that growth of savings should continue nearly as at present, in view of the steady growth in population. Further, the magnitude of available savings has nearly always in the United States fostered steady growth due to the margins in our economy, unique today among the countries of the world. Unusual thrift of some peoples makes adequate life insurance consistent with modest living standards, but countries with a shortage of all essentials of good living cannot support a significant life insurance business. With 7% of the world's population we carry 70% of its life insurance.

Mr. Thompson pointed out that the principal competition of life insurance companies is not with each other, but with other agencies for savings and especially with other avenues of spending. Of course, all our business and industrial life is more or less competitive but our competition is chiefly against articles of more popular appeal. This explains Dr. Goldsmith's comment on the narrow limits to which real savings have been held despite an increasing level of consumption expenditure.

While Dr. Goldsmith expects the "savings ratio" to decrease, partly because of the increasing proportion of older people who use up their savings, interest rates appear to be rising and income tax rates can scarcely increase any further if we are to continue having a private enterprise economy. Meanwhile the insurance agencies keep on reminding the public of the need for security far beyond the present Social Security benefits.

He was impressed with Dr. Goldsmith's theory that absolute savings may increase 3% per annum, 1% for population increase and 2% for average growth of real income. At the end of the century, then, annual savings may be four times the present rate. This seems consistent with the Brookings Institute forecast that 100 years hence the United States population may be 300 million and the scale of living 8 times as high as now.

Mr. Thompson points out a difference in nature between the classification of government insurance and retirement funds, and the classification

of private insurance company or independent pension funds. The latter are voluntary and to some extent at least they are a liquid resource; government-managed funds are neither.

Turning to the trend of interest rates, Mr. Thompson referred to Dr. Goldsmith's reminder of the story of the questionnaire put to financiers of 1899 by the president of the Equitable Life. Even though the predictions were not realized, it all turned out just as well for the insurance companies. The low interest rate they assumed in their contracts remained safe for many years and in 1948 the companies felt obliged to reduce their interest assumption still further. Had a higher rate been recommended by the financiers in 1899 and adopted by the companies, the change we made in 1948 would have been required in the confusing 1930's, with less fortunate effects.

It is well that Dr. Goldsmith reminded us that there is no such thing as a single rate of interest at any one time; rates always differ between different classes of investments. Nor is the rate of riskless investments, such as U.S. Governments, a good norm because of the special uses to which they are put: formerly as a fiduciary basis for circulating currency; latterly, in relation to the fiscal and rediscount policies of the Government, they furnished the inflationary results we all know. Only since March of 1951 has there been a free market for Government paper but it is still too early to say what is the "riskless" rate at present. Of course, it fluctuates like other rates. Probably the best course is to concentrate on the "basic long-term rate" earned by all invested units or by important sections of them. Even that may differ for different groups of investors.

Dr. Goldsmith's thesis on the long-range waves was vividly and faithfully presented. Probably the interest levels at the latest upper turning point will never recur. His remarks on the way interest rates change in the same direction but at different rates for different types of investments are also sound. Regional differentials, by the way, tend to be smoothed out by the Federal Reserve system as intended.

Mr. Thompson then took up Dr. Kuznets' remarks. As he said, the "maturity" theory which obsessed us during the 1930–35 depression amounted to defeatism. The actual danger from an economic point of view is not the "maturity" of having no further frontiers, but of wasting or misapplying savings to nonproductive uses. The conspicuous illustration of this is expenditures for defense and military purposes, which can even prove positively destructive on a vast scale. It will profoundly affect our economy even if war never is waged on the North American continent. One-sixth of our national income for defense ($50 billion) is still not so great as to require government controls of investment, production and

distribution, and the more fully the economic machine regulates itself, the more equitable will be the results.

Technological enterprise in the last five years offers almost unlimited scope for new capital. Only recently the average industrial investment per worker was something over $16,000—varying from $7,000 in trade to $50,000 in a public utility plant. Now, however, a new steel plant is being built for 5000 workers at a cost of nearly 500 millions of dollars: $90,000 per worker. The same thing is true in other fields, especially for expansion and research.

Dr. Kuznets' comments on the tendency to shorten working life by deferring entry into business or professions to obtain more education, and by lowering retirement age at the end of the career, are significant. Mr. Thompson noted that this increases the number of consumers and also considerably embarrasses the private educational institutions. Another restriction on productive time is the reduction in working hours per week. Mr. Thompson noted that while normal retirement age was deliberately reduced in the depressed thirties to spread opportunities for work, a slight reverse tendency is observable in recent years.

Mr. Thompson concluded by citing with approval Dr. Kuznets' statement of the importance of separating out the lasting influences in our economy from the transient ones, even though the task is difficult.

MR. H. L. GUY indicated that he would try to apply the principal conclusions of Drs. Goldsmith and Kuznets to Canada.

Canada's climate, topography, and development have to date precluded a self-contained balanced economy. She still has a vast geographical frontier, as did the United States before 1900, and room for much expansion. Canada's resources cannot support as large a population as the United States on the North American living standards. But her present population is likely to increase faster than that of the United States in the future.

For many years Canada will continue to export products of her forests, mines and farms and to depend on external trade. Thus, her policies for preventing inflation and maintaining employment have limited scope, and the exchange value of her currency is peculiarly vulnerable to external conditions. A further difficulty with predictions is the changed trade pattern in recent years. Before World War II, Canada sold to Great Britain and bought from the United States. Now the United States is the principal market, both selling and buying, and trade with other countries has also expanded. Thus it is more true than ever that Canadian economic trends follow those of the United States; conversely, too, the United States is becoming dependent on Canada for certain essential materials.

Canada's major economic problem is better balancing by development of a larger home market. Her undeveloped resources obviate any problem of economic "maturity" but not the possibility of semi-stagnation from external causes.

Drs. Goldsmith and Kuznets necessarily had to limit their discussions by assuming no major war; in Canada it is necessary to assume also reasonable stability in the United States and of the present trade pattern with the United States. Historical recurrence, necessarily the only basis for future projection, is, however, particularly unreliable in a younger economy, as illustrated in the United States by the unexpectedly high postwar birth rate. In Canada, furthermore, immigration is a more important factor than in the United States and is also conditioned by unpredictable social attitudes.

The substantial downward price trend anticipated by Dr. Kuznets over the next few decades is (as he noted) at least partially offset by the disposition of western democracies to expect payment of social dividends before they are earned by increased productivity, which is an inflationary force.

The bargaining power of economic blocs and (in Canada) political sensitivity to unemployment may perhaps be factors not adequately allowed for. Measures against unemployment must be cautious to avoid inflation, which popular will is less sensitive about. It is especially important for the life insurance industry to be vigilant about this; the time comes in an inflation when the public turns the money-valued investments to real assets.

Despite the advisability of avoiding predictions, Dr. Goldsmith's trend lines for interest rates are certainly pleasant to contemplate. Factors making demand high are even more important in Canada (where, moreover, the government's debt problem is easier than in the United Sta es); if rapid growth continues, housing demand should be strong; large-scale resource development should require financing; also expanding communities will require various expanding services. Although abrupt peace in Korea would have unpredictable results economically, with depressed demand for defense metals, Mr. Guy believed the underlying growth in Canada would support a healthy demand for funds.

Mr. Guy noted the investment problems confronting life insurance companies: Should they, in a period of rising interest rates, transfer existing investments to shorter-term ones? He thought that carrying such operations to an extreme should be avoided, so as to keep the benefits of averaging. Further, Canadian companies, more than American, take responsibility for supply of residential mortgage funds and are subject to

CHART IV

CANADA

(*a*) % National Saving to Gross National Product

(*b*) % Personal Saving to Personal Disposable Income

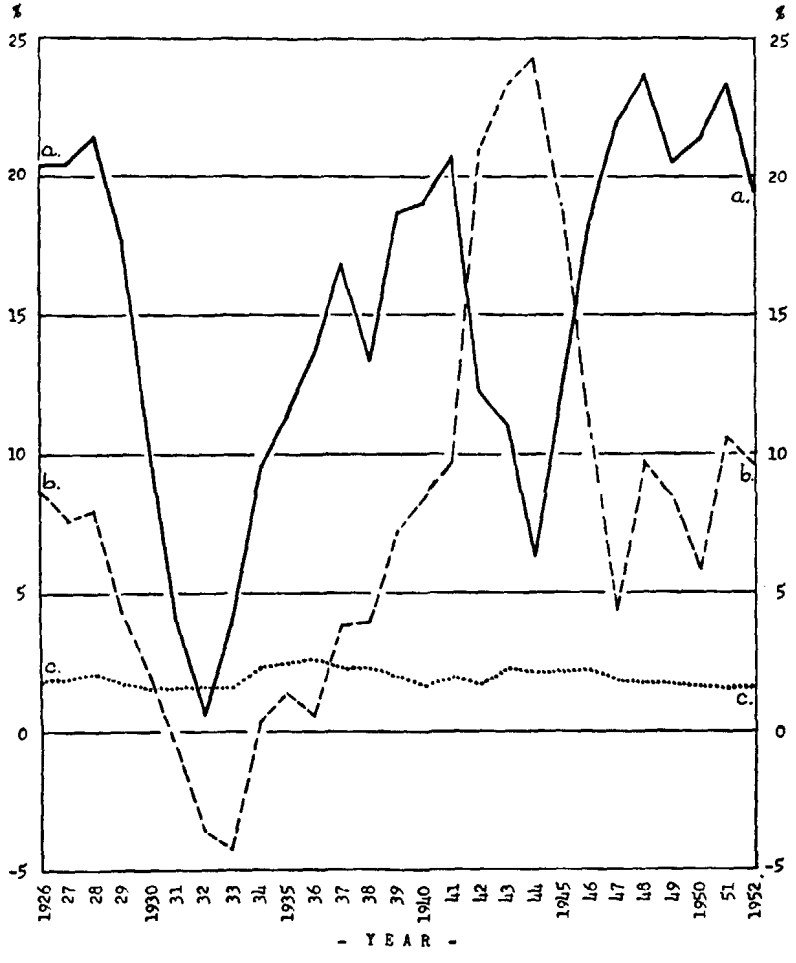
(*c*) % Life Insurance Saving to Personal Disposable Income

Source of Information—D.B.S. NATIONAL ACCOUNTS

National Saving } ..... Income and Expenditure 1926–50
Personal Saving }

Personal Disposable Income..... Income and Expenditure Preliminary 1952

Life Insurance Saving..... { Income and Expenditure Preliminary 1949
Figures for 1949–52 estimated



pressures in this field. Another question of company policy: Should new insurance policies assume higher interest rates? It is important to remember that while twenty or twenty-five year trends may seem fairly predictable, our contracts with their settlement guarantees reach much farther into the future.

These remarks refer to participating policies. Nonparticipating contracts are in a different position and have in many instances been adjusted. He approved the interest adjustments of the late 40's, saying that they provide no greater margins for the second half of the century than the assumptions of the early 1900's did for the first half.

Mr. Guy emphasized the value of Dr. Goldsmith's study in view of the lack of long-term savings records in Canada, as compared to those of the United States. He felt less confident that the share of life insurance in total personal savings will increase in Canada as much as Dr. Goldsmith anticipated it will in the United States. He quotes figures to show that in the quinquennium 1926–30, Canadian life insurance savings were 31% of total personal savings or 14% of savings plus expenditures on durables; in the quinquennium 1948–52, the respective percentages were 19% and 9%: not an encouraging trend from the point of view of Canadian life companies. He presented Chart IV, giving other figures concerning savings in Canada.

The questions these figures provoke have no pat answers. Mr. Guy believed that they do not reflect lack of confidence in life insurance, but arise from housing necessities and purchase of tangible assets at the rising price levels. He also believed, but was unable to obtain supporting statistical information, that disposable income has shifted to some extent from white-collar workers and higher-income classes to hourly-paid workers and farmers, with professional and proprietary groups holding their position. He made the further point that the emphasis on living costs through income programming insurance sales methods stresses the protective element and for that reason consideration of savings figures alone is not a criterion of value of our services. He recommends for the Canadian companies more intensive cultivation and education of the home market.