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CORRESPONDENCE

(*To the Editors of the* Journal of the Institute of Actuaries)

DEAR SIRS,

Equity-linked Policies

Where an individual has freedom of choice in the direction of his economic activities, as in a 'free society', it would seem to follow that in such a society the individual must assume the prime responsibility for his own welfare and that of his dependants. To meet that responsibility individual voluntary savings are essential and stability in the currency would therefore appear necessary.

Debasement of the currency—inflation—renders savings abortive and consequently threatens the continued existence of a 'free society'.

Yet many 'free societies' have experienced a great deal of inflation in the past and the savings habit has not been destroyed—yet. But I think the explanation lies in the circumstances under which past inflation has occurred.

In discussing Mr Gold's paper on inflation in the March 1957 *Transactions of the Society of Actuaries*, exception was taken to the implication that past inflation had been a continuing and gradual process over an extended period. A record of the U.S. wholesale commodity price index from 1795 to date was portrayed graphically and the conclusion arrived at was that on four occasions only—each of which coincided with a war—there had been over a relatively short period of time an almost perpendicular rise in this index, but that for much longer intervening periods of time there had been a reasonable degree of stability in the index. In short, past inflation had been war-induced.

Herein may lie the reason why past inflation has not yet destroyed the savings habit, for I am inclined to believe that people have accepted inflation incidental to past wars as an inevitable consequence in each instance of a catastrophe which has overtaken them and for which they and the countries of which they are citizens believe that they have had no responsibility.

If, however, it should now be generally accepted that inflation in the future is inevitable even in peace-time (and consequently is due to our own inability to maintain a stable monetary unit) then I would think that eventually we will have a flight from currency and its inevitable collapse. Such a collapse occurring in peace-time would likely see the passing of the 'free society' consequent on the destruction of the savings habit.

The alternative to a 'free society' is a 'state-run society'—forced direction of the economic activity of the individual and collective responsibility for the welfare of its members.

As title to all the instruments of production and distribution would then be vested in the State, equity investment as a hedge against inflation would obviously be abortive.

Yours faithfully,
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