

tional and other legal obstacles to heavy investments in common stock. In the past there also have been serious losses as the result of excessive payments to banks and insurance companies, and some corruption by trade union leaders. The result has been that a substantial part of the payments made on behalf of workers has been wasted. The hearings before the Senate Labor and Welfare Committee in 1955 and later years reveal large losses of this kind and resulted ultimately in the Pension Disclosure Act, which at least provides some publicity in the handling of the pension funds.

CHAPTER 8. ASSETS AND INFLATION

In the long debate over the pros and cons of inflation, much has been made of the fact that inflation robs savers and in particular those who have fixed claims in dollars—for example, of bonds or bank deposits. It is, of course, clear that if one purchased a Government bond yielding 3 percent in 1945 and the bond were to be redeemed in 1955, and if prices have risen by 75 percent in the meanwhile, the bondholder has suffered a serious loss. Again, in 1958, the American public held \$550 billion of life insurance on 124 million individuals. Legal reserve life insurance companies accounted for \$494 billion, or an average of \$11,000 per insured family. In 1939, there had been \$109 billion of life insurance in force. Obviously any of this insurance that was realized in later years suffered from a rise in prices and a reduction in the real value of the payment. Anyone, for example, receiving benefits of an insurance policy issued before 1939, in the year 1958 would experience a substantial loss in the real value of his policy. The same, of course, would hold for the \$152 billion of life insurance in force in 1945, for there has been a substantial inflation since 1945. But it is of interest that since 1949, the total life insurance in force rose from \$214 to \$494 billion in 1958, or a rise of \$280 billion, and during this period, the inflation has not been large. Of course, the beneficiaries of these policies are not likely to realize their benefits for many years, and therefore the real issue is: How much will inflation develop once their benefits are received? It is an interesting fact that despite the large inflation since 1940 life insurance per family has risen from \$2,700 to \$8,800, and in relation to disposable personal income per family, from about 160 percent in 1940 to a little less than 160 in 1958. In view of the very large advance of public insurance, notably the old age insurance, this is a remarkable record and suggests that the public still is not aware or very much interested in the process of inflation. One of the greatest blocks to inflation is the lag in the general realization of its presence.

Of course, life insurance companies might conceivably invest in equities, and therefore protect their policyholders by investing in equities as an offset to inflation. This would not do the policyholder any good unless he had an escalator clause in his policy. But they are unable to invest in equities as a rule, in part because of the legal restrictions. Of \$108 billion of assets held in 1958, U.S. insurance companies had only \$4 billion in stocks. They also held a little over \$3 billion in real estate, an asset that rises with inflation. But most of their assets are in types that do not respond to rising prices.⁶³

⁶³ All facts in these last few paragraphs are from "Life Insurance Fact Book," 1959, and my calculations.