LIFE INSURANCE AND COMMODITY PRICES*

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BY PHILIP BURNET,
President, Continental Life Insurance Co., Wilmington, Del.

THE accompanying chart suggests that some sort of relation exists between the production of new life insurance and the trend of commodity prices. It will be noted from the chart that the amount of new life insurance annually issued in this country from 1860 to 1880 parallels with remarkable accuracy the rise and fall of commodity prices during the same period. The only notable exception is for the years 1864-5, when prices rose more sharply than the amount of new insurance. You will also note practically the same phenomenon for the years from 1913 to 1919, inclusive. Prices rose in much the same way as they did from 1860 to 1866, and the amount of new life insurance increased in a similar manner.

It is yet to be determined what, if any, is the casual relation between the two sets of phenomena; if there is such a relation, then it would follow that an attempt to forecast the trend of life insurance production would resolve itself largely into an effort to predict the trend of prices.

*In view of the interest in the chart published in *The Monetary Times* of October 24th, this address, comparing life insurance business with general price levels, is reproduced herewith.

The Trend of Commodity Prices

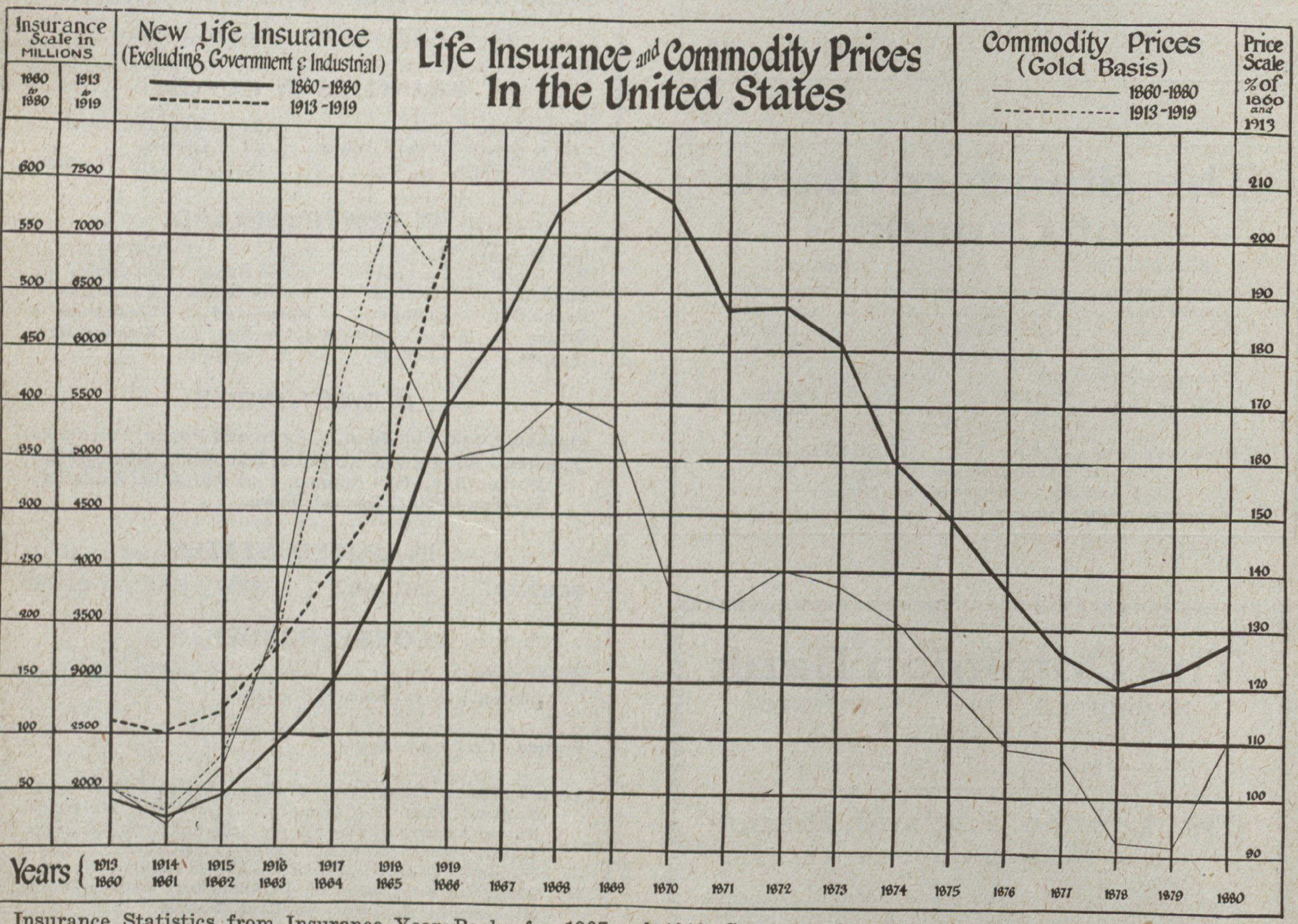
Taussig says that "what determines prices in a highly developed community is the relation between the quantity of goods and the quantity of purchasing power in terms of money."† From this it would follow that an increase of purchasing power or a decrease in the quantity of goods would raise prices; and, conversely, that a decrease of purchasing power or an increase of goods would lower prices. Let us see, then, if we can make any sort of a guess as to whether purchasing power and goods are likely to increase or decrease.

Purchasing Power

Our banks either own or are carrying for their customers approximately 6,500 millions of war bonds.‡ As borrowers pay off these loans, or investors buy the bonds from the banks, deposits will be reduced to a like extent, thereby decreasing purchasing power. But the Federal Reserve Bank of New York reports that the credit released by the liquidation of government securities has been promptly absorbed by the demands of production or distribution, or of the speculation in commodities, securities and real estate, which is taking place practically all over the country.§ Moreover, the government itself is not yet through borrowing. Disbursements exceed revenue; the only way to meet the deficiency is by further borrowing, which, although decreasing, is likely to continue for some time.

On the whole, therefore, it does not seem that the total purchasing power in terms of money is likely to be reduced

†Principles of Economics, Vol. 1, p. 430.
‡Commercial and Financial Chronicle, Vol. 109, p. 1651.
§p. 1648.



Insurance Statistics from Insurance Year Books for 1907 and 1919, Spectator Co., New York; 1919 Estimated. Commodity Prices, 1860-1880, median from chart on page 319, Vol. 1, Taussig's "Principles of Economics," Macmillan, New York; Prices, 1913-1919, median of Bradstreet's Index number.