Loose Lips ...

I was very surprised that James C. Hickman in his article, "Actuarial Ideas That Helped Win World War II" (May/June 2000) did not mention the work of actuaries attached to the operational research group called the Tenth Fleet, which made many important contributions to winning the Battle of the Atlantic.

ROBERT B. WILLETT
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Editor's note: To find out more about the Tenth Fleet, check out the Contingencies Plus section of www.contingencies.org.
(http://uboat.net/allies/ships/us_10thfleet.htm)

File It

Thanks for the article on PPVULs in the May/June issue of *Contingencies*. It's the best brief summary—or extended summary—of the topic I've seen. More generally, it's a model of expository writing that more people should emulate. I plan to keep it in my permanent reference file.

JOHN PALMER
CINCINNATI, OHIO

Happy Counter

Mathematics devotees of all ages will find items of interest in the Mathematics Calendar 2000, by Theoni Pappas. Since that calendar's main purpose is not to record appointments or to keep track of the date, its purchase would be appropriate even at this late date in the year.

For each day, there is a short mathematical item — usually involving a symbolic unknown. However, the challenge relates to the solution method rather than the actual answer, since the latter is always equal to the date.

Some items are trivial: sum of n equals 210, if n = 1, 2, ..., x. Others are more challenging: a ball that rebounds 3/4 of its fall is dropped from 12/7 feet. How many feet will it travel in total?

For mathematicians who remember portions of what they once knew, the main interest may lie in "proving" a result they "know" is correct; e.g. the square of the length from any point on a tangent to the contact with the circle equals the product of lengths to the near and far points of intersection of the circle and a line through that initial point on the tangent. (Of course, on the calendar, that complicated statement is indicated by a geometric diagram.)

There is also a short essay for each month, and some educational items for various dates; e.g. in January, the Egyptian hieratic numerals for 25.

The 2000 edition continues a series, with 2001 already in preparation. The calendar can be ordered from World Wide Publishing (phone 650-593-2839), or at various bookshops, actual or virtual. (I do not have any relationship to the author, publisher, or sellers. I'm merely a happy gift recipient of the calendar.)

HOWARD YOUNG
LIVONIA, MICH.

Consumption vs. Redistribution

Fred Kilbourne has once again served the profession and the public well with his provocative article on past and projected governmental expenditures in relation to gross national product (*Your Government is Ready, Are You?* March/April 2000). Nevertheless, I would have felt more comfortable with his analysis if he had made a distinction between items that represent consumption and those that represent redistribution of income.

The latter include most prominently Social Security but also income welfare benefits, interest income paid domestically, and perhaps a portion of in-kind benefits such as food stamps and Medicare. The government, in effect, is only acting as a pass-through agent for these expenditures. Their size, of course, remains a concern, but the concern is of quite a different nature from that for expenditures that actually consume a portion of our economic output, rather than simply transferring it from one group of consumers to another.

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Smoke Signals

I can sympathize with Thomas J. Liebowitz' "utter contempt and disgust" upon reading something stupid. I had that reaction to his letter in the July/August issue. From what I read, "the entire scientific community" does not agree that global warming: (a) is caused by man; nor (b) is a serious threat to man.

Characterizing those of us who recognize Darwin's theories as: (a) still unproven after over 100 years; and (b) an attempt to put a "scientific" label on his political opinion, i.e., slight imperceptible change is the natural order of life and, therefore, governmental change by revolution is unnatural, as "anti-evolution religious idiots" does not improve my blood pressure.

As for DDT, I wonder how his "prime example" would go down with the victims of the West Nile virus, carried by mosquitoes that might have been eliminated if DDT were still in use.

The dig at insurers for not having separate nonsmoker rates 20 years earlier is also off base. The first Society of Actuaries meeting I attended was in the fall of 1963 in Atlantic City. A panel discussion on "Smoking and Health" was given by three men: Dr. E. Cuyler Hammond of the American Cancer Society; a representative of the Tobacco Institute; and a public health expert. (I'm sorry I can't recall the names of the last two.)

After the discussion, one of these men asked the audience why insurers did not have nonsmoking rates. Al Morton, then of Prudential, as was I, responded that the objective of a "standard" rating was to include about 90 percent of all applicants. This could not be done at that time if smokers were excluded. (About half of us were smoking during the presentation. It was many years later that the Society limited smoking to one section of each meeting room and still more years before it was banned.)

Richard S. Hester, Sr.
Newark, N.J.

Unified in Volatility?

I appreciated the article, "Counting the House: Actuaries and Financial Services Reform" (July/August 2000). I want to point out a downside to unitary financial services regulation. Whatever risk model gets imposed by the regulators has unexpected secondary effects on the asset markets.

In the Asian crisis, financial institutions using VAR models exacerbated the crisis by selling into a falling market. That's what their models told them to do. As certain asset classes exhibited greater volatility than their earlier estimates, they revised their estimates of volatility up, which told them to sell more of the volatile assets. This fed on itself for a time. The intrinsic value of the assets was not a factor in their decision-making. Stability finally came when unlevered buy and hold investors came in with fresh cash to buy the assets that were selling beneath their intrinsic value.

Now, just imagine what would have happened if all financial institutions were using VAR models during the crisis. The only investors left who could provide stability would be individual investors, and total return financial entities such as mutual funds and hedge funds. The mutual funds and hedge funds probably wouldn't be too much help, because on net, they are trend followers. Trend followers tend to increase volatility.

I submit that unitary financial regulation will produce asset markets that are more volatile than under multiple financial regulators. Financial institutions that are regulated differently respond differently to conditions in the asset markets. When one set of financial institutions is in trouble, the differing regulation of another set of institutions may leave them healthy and allow the financial system as a whole to survive.

My conclusion is this: To the degree that we adopt unitary financial regulation, volatility in the asset markets will increase. It will be worse if such financial regulation is international; diversity of financial regulation in different countries also encourages stability in the overall global asset markets.

David J. Merkel
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Corrections: In the article "Pandora's Box," (May/June 2000) on page 43, the conclusions highlighted by bullets were incorrectly attributed to Medicaid and Minnesota Care. They were, in fact, the conclusions of a study conducted by the Medical Care Management Corporation. Contingencies regrets the error.

In the "Reinsurance Corporate Profile Section," (July/August 2000) on page 65, the phone number for Larry Roy was incorrectly listed. The correct phone number is (219) 455-3550. We regret the error and any inconvenience it may have caused.