

The Investments of Life Insurance Companies. By LESTER W. ZARTMAN, Ph.D., instructor in insurance, Yale University. (New York: Henry Holt and Company. 1906. Pp. iv + 259.)

Dr. Zartman's contribution to the literature of insurance was begun in 1903 while a graduate student at the University of Illinois, was completed while a fellow at Yale and was accepted as a thesis for the doctorate at that institution in 1906; afterwards it was prepared for publication and now appears in its present form, a compact book of substantial appearance with numerous references to the sources and an adequate index. Unlike the major portion of the recent literature on the subject it is not a hasty compilation hurried together to meet the unexpected demand for ready information, but a well considered, orderly and scholarly work upon a subject that lies at the very heart of the present day insurance problem. Furthermore, the work is an excellent example of what may be accomplished by the application of scientific, economic, and statistical methods to any of the practical business subjects. It may therefore serve not only as an incentive to other similar investigations but as a pattern that with modifications necessitated by particular conditions may be followed in other practical fields until there shall have been created a body of scientific literature in every line of modern business.

From the scientific point of view, the three chapters dealing at length with the character, the earnings and the cost of insurance investments constitute its most important contribution to insurance literature. The changes in the character of investments from decade to decade are presented statistically and an attempt is made to discover the causes to which these changes are due. On the whole it is found that neither the economic nor political forces occupy the first place. Probably it is not particularly strange that "The personal element has entered largely into the character of the assets which a company purchases. A half century ago the majority of insurance assets was in mortgage loans; today such investments takes a second place, corporation securities, bonds and stocks occupying the place of honor. Thus in 1860, fifty-nine and two hundredths per cent of all insurance assets were invested in mortgage loans, while in 1900 twenty-eight and eight hundredths were so invested; on the other hand in 1860 investments in corporation securities were so small as to be practicably negligible, only three and two hundredths per cent, while in 1900 they had increased to thirty-seven and seven hundredths per cent. The character of the investments of individual

companies are not given in the work. If, however, one consults the reports of the various States where the individual investments are presented in full the statement quoted above from the book will be substantiated. Thus some invest chiefly in mortgage loans, others in securities, others in loans on policies, others in real estate, still others have their investments widely scattered over the several fields. On the whole the earnings for a series of years seems to have been fully as satisfactory from mortgage loans, even crediting to the companies the considerable appreciation from the rise in value of securities during the last few years. If we should take the company that is perhaps the leading example of those that invest heavily in bonds and compare with the leading company that has made a specialty of investments in real estate mortgages the result is as follows:

Year	Company	Investments	Earnings	Cost	Net Earnings
1904	Union Central	80% mtgs.	6.50	.59	5.91
1904	N. Y. Life	70% bonds	4.02	.38	3.64

It would not be fair of course to draw conclusions from a single comparison; since many other factors beside the kind of investments affect the net earnings. Yet the fact ought not to be overlooked that if one selects the half dozen companies that have maintained the highest rate of earnings for the past decade it will be found that a majority of the companies have invested more largely than the average in real estate mortgages.

It must be confessed that the practical lessons to be drawn from these investigations are disappointing. It may properly be urged that a study which has analyzed the character of the investments of the leading insurance companies in the United States and which further has applied a scientific test to determine their respective earning power ought to be able to point out certain principles that might very wisely be followed in the future by the several companies. It will be remembered however, that the investments analyzed have been made quite largely as the result at least of personal inclination and without that strict attention to economic conditions that was to have been expected. Moreover the primary purpose of the book was undoubtedly to point out methods of testing investments which may be applied with the expectation of obtaining valuable results whenever assets are invested upon strictly economic grounds. When that period in our insurance history is reached and the exact methods developed in Dr. Zartman's book

applied by the several insurance companies to their various classes of assets a marked improvement in earning power of those companies whose assets are returning less than the average return ought to be realized.

The second part of the book which deals with the legislative regulation of insurance companies and their control of assets together with the political effects of the accumulation of assets in various forms and in geographical localities is of much greater practical importance at the present time and ought certainly to have a pronounced effect upon the character of future legislation. An examination of the character of the insurance legislation enacted by the several States shows the following general tendencies of the very greatest significance.

First: There has been a general tendency to increase the scope and severity of restrictive legislation and at the same time relatively to weaken the policy early established of regulation through publicity. Some of the restrictive legislation is shown to have accomplished desirable results but on the whole it is evident to one who reads carefully and at the same time has observed the effects of this policy that at best it must be denominated a mistaken one.

Second: There has been a marked tendency for the laws of the several States to become more and more uniform, that is, to approach a common type. This has been accomplished in some cases by the abolition of extreme acts by the more radical States and in other cases by the introduction of more stringent legislation by others; and,

Third: There has been gradually but universally developed the policy of using the power of regulation over the insurance companies for the benefit or the supposed benefit of the particular State which is enacting the legislation; this is manifested in two ways, in the first case it is provided that a certain portion of the assets shall be invested in the State in question or in some cases in a particular form of investment which for certain reasons the State or its citizens wish to take advantage of; in the second case it is generally provided that some exceptional advantage shall be reaped by the State through the taxation of foreign insurance companies. This goes so far in certain instances as to constitute excessively burdensome taxation of the policy holders; in most cases, double taxation, and in practically all cases a system of discriminatory taxation in favor of the home companies and against all foreign companies.

The first and third of the tendencies are preponderantly bad, the second is good so far as uniformity is concerned but it must be acknowl-

edged that uniformity is being reached by a mistaken road. While the States have been following out the lines above mentioned they have quite generally neglected those saner methods of regulation which the situation has demanded. The control of the mutual companies and with that of the rapidly growing assets has been permitted to remain in the hands of various cliques year after year and nothing has been done to improve the methods of election and thus make the companies in fact what they are in name, viz., mutual in the best sense of the word. Directors have calmly abdicated their authority in favor of the active management and no attempt has been made to establish and enforce that degree of directors' responsibility which has been maintained in other fields of corporate enterprise. In fact the whole policy of our State legislators has been directed toward treating symptoms rather than the causes and in the mean time securing a liberal share of the fees for the benefit of the State treasury.

Dr. Zartman's attitude toward legislative regulation has evidently been influenced largely by the results of the legislative policy which he has been studying. He believes in securing representative boards of directors who really direct and holding them legally responsible for their acts with considerable freedom in the actual working out of their policies. And if his views are sound, it is apparent that much of the legislation of the past year is unwise and will fail to accomplish the results so much hoped for by all policy holders. In the light of past experience it is evident that unless the several States speedily change their policy and adopt a more rational one both in regard to regulation and taxation the sentiment will grow so strong in favor of federal regulation that some method will be found of securing that much desired end.

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Canadian Constitutional Development: Shown by Selected Speeches and Dispatches, with Introductions and Explanatory Notes. By H. E. EGERTON, M.A. and W. L. GRANT, M.A. (London: John Murray. Pp. xxii + 472.)

Not even English constitutional history since the American Revolution is so full of vivid interest as the constitutional history of the British North American colonies from the treaty of Paris of 1763 to the creation of the Dominion of Canada in 1867. In England so much of constitutional import had been settled before the American Revolution. At the