

ABSTRACT OF THE DISCUSSION OF PAPERS READ
AT THE PREVIOUS MEETING

AN APPROACH TO A PHILOSOPHY OF SOCIAL INSURANCE

JARVIS FARLEY AND ROGER BILLINGS

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WRITTEN DISCUSSION

MR. W. R. WILLIAMSON:

This thoughtfully prepared paper from two Health and Accident students is of particular significance in any discussion of the current Wagner-Dingell Bill.

It has set me to a reconsideration of the phrase *social insurance* and to re-examining, with the help of the Beveridge and the Marsh Reports, the area commonly signified by "social insurance." In a paper presented to this Society in 1938, I adopted the phrase "*social budgeting*." I did so after reading the P.E.P. Report on the British "Social Services," published in 1937. I have tried to change "*budgeting*" to "*insurance*." I have recently gone back to "budgeting." *Insurance* seems to me to carry with it too many of the overtones of *savings* which have become attached to the word "*insurance*" in the conduct of the business of life insurance and annuities. "*Social Budgeting*" on the other hand lays fairly equal emphasis upon the securing of funds and upon their expenditure in behalf of the beneficiaries, covering benefits and the administrative costs. *Insurance* as handled through individual contracts commonly requires methods of individual selection; commonly results in declinations which reduce the area of effective protection. The administration of the social services commonly included in the phrase "social insurance" involves in many respects the sense of risk distribution and risk sharing carried by *insurance* generally. I believe their full purpose, however is not served when they fail to budget for the risks which have already occurred, when they fail to deal with those very situations which had called for the social planning. The very use of the word "*insurance*" has seemed to exclude too many beneficiaries. It seems to have been utilized when the community dealt only with the group of industrial workers. It seems not quite adequate to the situation when the community deals with all its citizens, as do Sweden and New Zealand already and as England and Canada are asked to do in the plans of Sir William Beveridge and Professor Marsh. I like to think of the *budgeting* as following the precedent of our educational system, where we plan on a reasonable amount of education for *all* our children and not for the children of individuals with sufficient attachment to the labor market, or for the children whose parents earn less than a given sum per annum. *Budgeting*

appears in the "Approach" in the method of allotting a certain number of work-hours per week to meet the costs of the benefits.

In the "Approach" are a vigorous faith in the workability of private enterprise under the dynamic direction of Adam Smith and his legitimate successors, great confidence in the effectiveness of the profit motive, and a tone of despair concerning that cooperation which is Government. With the emphasis upon the word "*insurance*," social insurance is rather thoroughly discussed as a competitor to private insurance. While I share the two authors' belief in private enterprise, in the probable wisdom of setting limits to the scope of Government, in the need of a sound apprenticeship for those who are to perform any skilled service for society, yet I have come to think of these social services as something very peculiar, something most difficult to pigeonhole, and inadequately defined as "another insurance."

I question the implication that for these social services, the choice is quite a free one as between Government administration and private administration. Those of us who have watched the development of the group insurances saw their establishment as virtually inescapable, and early recognized that they were not, in the main, competitors of individual life insurance. Rather they filled a vacant niche in the insurance structure. They added to the effectiveness of the whole insurance enterprise. The concomitant growth since 1910, in Ordinary insurance, in Group insurance, and in Industrial insurance has been very striking.

The Farley-Billings paper is the expression of an informed opinion by two men in the Health and Accident field. So much of social security discussion up to date has been limited to old-age and survivors insurance and that problem child, unemployment insurance, that I occasionally have to force myself to remember that a "unified social security program" includes also various forms of Health and Accident protection—that it ranges from cash benefits for temporary and long-range disability to the furnishing of the costs of medical care including hospitalization, dentists', doctors' and surgeons' fees, nursing and pharmaceutical supplies. Possibly the authors are fundamentally thinking of these health areas as they build up their story. Here there are difficulties in establishing such a floor of protection as seems so simple in old-age and survivors insurance. In the expansion of the health and accident benefit scales in the Wagner-Dingell Bill there seems to be little scope for a supplementation through private insurance companies. It may well be impossible to discuss over-all effective social security in the abstract. It may be necessary to deal separately with each of the services, the better to orient them within our existing economy.

I envision a conscious outgrowing of that sense of defeat that has accompanied the depression years. Cooperation will win the war. Toward that purpose we have allocated and will continue to allocate through sound bud-

getting, both the financial and the labor reserves essential to the job. After the war, I expect an almost overwhelming willingness among our citizens to pool enough of our joint resources to meet "presumptive near-subsistence need" in old age, in chronic disability, in orphan childhood, in widowed motherhood. These are catastrophic contingencies. They represent individual situations now with us. To focus attention upon what this could mean, I will bring in some illustrative figures as to what our current situation may be.

We may shortly have 65 million gainfully employed persons in the country and on the farflung battle lines, 54 millions in civilian employments, 11 millions in military employments. This is our working productive organization, though much of the product is destruction.

There seem to be some 6 million individuals aged 65 or over who have no current attachment to the labor market. They are either retired from work, or are the wives or widows of those who have retired. There are, I believe, 2,250,000 paternal orphan children below the age of 18 (there is, of course, a large amount of current work being done by the older children, but I will leave them in the total beneficiary group just the same). There may be 1 million widowed mothers—many of them engaged in full-time or part-time employment. I am not sure just how to define "chronic disability"—the attempt is marked by all sorts of difficulty—but let us say that there may be 3,750,000 persons past the age of 18 and under the age of 65, who believe themselves currently unable to work and have been disabled for a long time. Some of the miracles of getting such persons back to work are extremely heartening. Not counting upon such miracles to reduce the claimants, this beneficiary group adds up to 13 million persons "presumptively in need." This is one-fifth of the 65,000,000 workers. The level of benefits under our public assistance and our old-age and survivors insurance programs is below \$250 a year per person. Using that level as a reasonable "rule of thumb" to measure near-subsistence, the yearly cost for such benefits for the unlucky 13 millions would be \$3,250,000,000. At \$30 a month or \$360 a year it would cost \$4,680,000,000. Against a yearly budget for national income of 100 billion—much lower than our current national product—the lower figure requires an allotment under social budgeting of $3\frac{1}{4}\%$. This figure is less than our combined expenditure upon liquor and tobacco. The higher figure is less than 5%. I believe that we could expect that much joint responsibility among the citizens; that we could pay for it; and that we could do it federally.

Among what might be called the social services are education, diagnosis of personal aptitudes, rehabilitation, and placement. Before even discussing benefits for disability, I should like to say that I am fully cognizant of the wisdom of an enlarged educational organization, with an emphasis upon adult education; upon that service which is evolving under the exigencies of the

war of measuring each person's aptitudes and directing him toward the most constructive types of employment. I am familiar also with the striking work in preventive medicine which is being handled by the Public Health Service and would like to see a similar preventive service to minimize wrong occupational alignments. These are superior services to the compensation for job loss and should be worth the sums we allocate to them. Such outlay might well help to reduce the cost of ameliorative and compensatory expenditures.

As against the catastrophic situations of jobless old age, chronic disability, orphan childhood, and widowed motherhood, there are small, cumulative expenditures required by the less serious spells of sickness and unemployment, and minor portions of medical care and hospitalization. There are occasionally large expenditures for medical care, serious cases of disability, long periods of unemployment. In the analysis of these widely varying needs, in the development of frequency distributions showing the range from the trivial to the extremely serious, the Health and Accident profession could present sound advice to those in the social budgeting field. There is the need to know much more as to the impressions and the facts. Coordination between life insurance and annuities both on the individual and group bases, and the services for catastrophic conditions under social security has seemed simple. Coordination of social and commercial benefits will be a little harder to arrange in this disability field. It seems probable that a floor of protection can be devised for administration under a social budgeting project, either at the Federal level, or at some lower level, such as the State, or the county. In reading many of the reports of the Gallup and the Fortune polls, I have frequently wondered as to the adequacy with which the questions are phrased. The replies, however, show a considerable interest in social budgeting for disability.

I am in complete accord with the suggestion made by the authors that it will be easier to allocate provision from wealth than from poverty—but human brotherhood can exist under both conditions. I question the implication I find here and there throughout the paper that we can postpone dealing with actual need among those who have catastrophic needs today until we have organized society at a higher plane. It would be wiser for us to set social budgeting benefits safely low, both from the standpoint of reasonable finance and from the social usefulness of preserving a marked incentive to return to work, and to supplement the floor of protection thus established by individual or group thrift programs. Simplicity, understandability, must mark both the benefits and their financing.

"Bargains" are commonly disappointing. Subsidies, like weasel words, are Janus-faced. I like to think of joint *responsibility* coordinate with *rights*. I prefer to think of a *responsibility* that challenges the citizen to greater efforts rather than a *grant* that encourages him to reduce his output. Social budget-

ing need over-emphasize neither the *giving* nor the *getting*. It is but enlightened bookkeeping.

Such bookkeeping under Government administration, meeting the desires of the citizens, may promote coordination of the Government and such administrators of group, wholesale, and individual insurances as are equipped to cooperate. I expect the profit motive to continue to function. I do not expect the Government to delay its plans for a generation, until all individuals may become fully cared for under the existing organizations.

I do not recommend protecting the citizens from securing a fair knowledge of what they may be "in for" when social budgeting gets under way, nor do I see why they should wait until "they know all." Under such caution marriage would be impossible, new enterprises would not arise, the spirit of adventure would die. The times are auspicious for more pioneering, not less, more enterprise, more effective American ingenuity.

WRITTEN DISCUSSION

MR. ROBERT J. MYERS:

Messrs. Farley and Billings have contributed a most thoughtful paper outlining their philosophy of social insurance and the role of Government. An individual's philosophy, just as his politics and religion, is traditionally immune from criticism, but I should like to take the liberty of setting forth a bit of my own philosophy in those instances where it differs greatly from theirs.

The authors raise the issue in connection with extension of the present coverage of social security that there is the difficulty of obtaining complete compliance of premium payment from the present non-covered groups. The point is well taken considering the present foundation of wages being the basis of taxes. But a universal benefits plan with flat or uniform payments and general financing by the entire nation (by income tax, sales tax, or any other general taxing basis) would not run into any such difficulties; thus benefits would be paid to all individuals who met certain qualifications such as retirement from gainful work after age 65, orphanhood, aged widowhood, etc., without regard to their having paid any specific taxes or contributions since as working members of society they would either directly or indirectly have shared in support of the program. In other words, the authors have considered only the question of whether it is possible to build additional stories onto the present social security structure without considering the likelihood of rebuilding the edifice from the foundations up.

I must take serious issue with the authors' belief that agencies of democratic governments cannot be thoroughly efficient or, conversely, if they are efficient, then we do not have democracy. This philosophy seems most unfortunate since according to its terms, no matter what the civil servant did he would be wrong. If an agency or in fact the entire group of agencies of the Government operated inefficiently, they would obviously be subject to criticism, whereas, on the other hand, if they were highly efficient they would have overthrown our democratic form of government! I do not believe that the authors have given sufficient proof of their point just by stating that in the past Government agencies have not been efficient and therefore that this will indubitably hold into the future. In the past decade the quality of Government service has improved drastically, and it is to be hoped that this trend will continue as more attention is paid to getting and holding good men in the service. For instance, the newly instituted courses in government administration in many universities will contribute materially to such improvement. An attempt to attract men from private business by paying them more nearly the level of salaries paid by business would seem to be desirable.

Throughout the paper the authors emphasize the cost aspects of social insurance and the fact that additional availability of benefits means added costs. While in the great majority of instances this may be so, there should always be kept in mind the counterbalancing effect of existing programs which could be lessened or scrapped. Thus for instance, as against the apparent cost of a universal pension plan there would be a number of "savings" from such sources as public assistance, private charities, individual provision for old age income, and family support of the aged.

Next, considering the question as to the advisability of disability insurance administered by the Government, the fact that other countries have had such programs in operation for years does really seem to be an important item. We should perhaps take a lesson from them and have our benefits at a very low level, at least until we are certain that the program can be efficiently and socially administered. The authors' argument that men who know the disability insurance business seriously question the possibility of successful Government operation is not necessarily final. After all, it seems likely that the individual operators of such now widely accepted public functions as education and mail delivery also seriously questioned the Government's ability to conduct such businesses.

The authors wisely trod lightly and rapidly over the quicksands of the socialized medicine argument, which could well bring forth reams in itself. I will limit myself to the one remark that the doctors' argument that it would cause actual deterioration of the quality of medical care seems hypocritical. (Do we as actuaries feel that we are rendering inferior technical service because we are on salary rather than individual consultants?)

In my opinion there is little valid argument for the indefinite maintenance of fifty-one different unemployment insurance systems. Once again there comes a conflict of the authors' philosophy and my own. I feel that there would be continuing efficiency from centralization where only relatively few high calibre men are needed for successful operation, whereas at present there must be at least one such person for each of the fifty-one agencies. Turning aside to the field of private insurance, would not many problems be simplified if there were only one regulatory body instead of the forty-nine state ones now in existence, many of which are at best impotent and at worst bungling because of a failure to employ skilled administrators. Let us not forget that only a few short years ago many insurance companies were heartily in favor of federal supervision of insurance.

Finally, I would like to discuss a bit of general national economics. The authors state that the repayment of the national debt caused by the war or else its servicing will require that all of us will have to work several hours more each week and that, moreover, in order to achieve a higher standard of living we can not have any thought of even as little as a 40-hour work week. First, considering the financing of the war, I do not see that we will necessarily have to work longer in the future to pay for the cost of today's war since in the aggregate we will only be paying the money to ourselves. The war is actually being paid for currently; the extra hours now worked and the extra raw materials now consumed are the cost of the war, and not the bonds being purchased. The authors' argument is exactly the reverse of that frequently appearing in advertisements that after the war is over everybody can cash in their bonds and buy the good things of life, all without any regard as to where the money is coming from. It certainly seems elementary to me that in the aggregate the redemption of the war bonds will largely go for the taxes to redeem them. Second, considering the argument that we will have to work long hours for many years to come, I am of the belief that the heights of efficiency to which we have come during the war years will enable even greater peacetime production efficiency so that with a short work week we can turn out tremendous amounts of goods and that we will need such a short work week to provide long after-work leisure to enjoy all the fruits of our production. Just as a nation can oversave (consider the effect of an extreme case in normal times where everybody decided for a whole month to spend no money whatsoever except for minimum food needs; without strict government controls a terrific depression would ensue as a result of overproduction), so can it overwork by producing items that it has no time to use. Somehow or other in my envisioned post-war utopia there must be developed methods for harnessing those two all-powerful items, superefficient production of which we are capable, and widely distributed consumption of which we are all in favor.

MR. C. A. KULP

The paper of Mr. Farley and his colleague Mr. Billings in *Proceedings* No. 59 presents a thoughtful and statesmanlike analysis. It is the more significant and welcome because it comes from men engaged in the insurance business, a group up to now all too rarely represented in serious discussions of social insurance matters. One can comment only with approval on the breadth of the authors' approach to these complex and pervasive economic and social issues; on their insistence on the responsibility of the citizen for sound decisions on these issues and on the obligation of our national (that is our political) leaders to handle them honestly and thoughtfully. That the authors, in the nature of the case, give us a counsel of perfection makes the counsel not a bit less valuable. Some of the difficulties in the way of intelligent citizen participation in a discussion of social insurance questions, as will be evident in the following discussion, arise from the fact that men do not agree readily, or indeed ever, on matters of philosophy. Even if those who think about social insurance most and soundest (by their own standards at least) should come to agreement, there would still be the very considerable task of transmitting and translating their ideas and recommendations to the rest of the nation. The difficulty here is that social insurance is not a simple idea or a simple institution. To master the problems of American social insurance is a task as great, as the authors suggest, as to master those of American democracy itself.

Take first the matter of achieving even minimal agreement on a philosophy of social insurance. Their definition (and mine) of a philosophy emphasizes a "consistent personal attitude." It requires that opinions be based on observation and sound reasoning but it is axiomatic that their observations and mine frequently may lead us to quite different conclusions and what is sound reasoning to me may be so much twaddle to them. Or vice versa. The standard of common sense is even more subjective. This comment on the nature of a philosophy does not make a philosophy the less important; it emphasizes that a philosophy is essentially personal and therefore non-universal and always debatable.

The formulation of a philosophy requires a statement of basic premises and even before this agreement on a set of definitions. It is here that the philosopher must guard most carefully against identifying his subjective judgments with universal principles. There is the basic question of the proper role of private enterprise and of government. There would be far from universal agreement for example "that government agencies cannot create an economic value as cheaply and efficiently as private enterprise" (p. 38). It is hardly fair either to say that "agencies of democratic governments have not been and cannot be truly efficient." The comparison, even limited to relative administrative performance, does not always result in a

decision for private management. (The authors incidentally do not limit the efficiency test to administration [p. 37].) Efficiency is a relative standard, even in private business; in terms of the objectives of a social insurance system it is a standard too narrow and too shortsighted. The test of efficiency when applied to social insurance institutions needs perhaps to be redefined and broadened, as the authors themselves suggest when they conclude that "private enterprise . . . is not as well equipped to define social sins and to police the maintenance of social responsibility" (p. 41). The authors in fact agree with critics that private workmen's compensation carriers "have failed to appreciate the social viewpoint" (p. 40). Their proposal is not however to turn both administration and social control over to the state but to have private enterprise and the state share the responsibility between them. The difficulty here arises of course when "the discipline" supplied by the profit motive and the government's social responsibility for wider objectives prove in practice irreconcilable. Practically for example private workmen's compensation carriers and self-insurers fail and fail to pay benefits to injured workmen and their dependents. Solvent carriers provide every possible variety of administrative performance. The impact of this uneven company performance on overall policy is evident. The point is not that state workmen's compensation funds cannot fail or have not failed, or that the state in this field has a perfect record as insurer or social guardian. The point is that this recommendation of the authors casts the state almost inevitably in the role of supernumerary.

This tendency of the authors to apply the standards of private business to a social insurance organization, it should be added, has another element of unfairness to a state-administered plan. It leaves entirely out of consideration those aspects of insurance administration in which the state has the advantage. The discussion on page 41 for instance gives the impression that only private administration can successfully underwrite the disability hazard, particularly the long-term. Actually the advantage here, if the experience of the rest of the world means anything, is with the government carrier. We agree with the authors that conditions elsewhere and here are different. But to conclude against state operation, omitting reference to the immense advantage of the state in this field in its freedom from selection, is to omit for consideration of "the man who if forming his opinions" (p. 46) on this subject the most important single underwriting factor.

A philosophy is all compact of subjective judgments and it surprises none, I hope, to discover evidence above that subjective judgments differ. These judgments are after all carefully discussed and their bases exposed for analysis and criticism. Harder to put the critical finger on are the rather numerous evidences of standards not only subjective but implicit and even moral or ethical. Obiter dicta are more dangerous even for actuaries than for

judges. An actuary may be ethical of course but the level of analysis is hardly raised by such casual analogies as that on page 36 in which "proposals for the government's entry into any field . . . might prove to be akin to the coming of inflation or the creation of a drunkard. . . . The insidious gradual onslaught may be called the "disease of inflation or alcoholism; and similarly 'just a little socialism' can develop unexpectedly the disease of socialism." This is hardly argument on the issue; and in any case socialism no longer has the punch it had for our ancestors. "Socialized medicine" (p. 43) is more effective, but is not the name of an institution or an idea but an epithet hurled at compulsory medical benefit insurance.

I hope this will prove the first of a series of contributions to the *Proceedings* on social insurance issues from those engaged in private insurance administration. In some ways unfortunately, it is already late for study and discussion. The social insurance system seems to set early and set hard and we have had a going federal concern for eight years. But our system is not yet complete and social disability insurance is still in the talking stage. For once let the experts of every persuasion say their say before decisions are irrevocably made.

AUTHORS' REVIEW OF WRITTEN DISCUSSION

We want to thank those who took part in this discussion of social budgeting (we like Mr. Williamson's phrase).

The discussions have been especially concerned with benefits which might be obtained for society from a sound system of social budgeting. Most of these benefits are not controversial if the system is sound. We accept the objectives as part of our hypothesis, and in our approach to the problem we have tried to study as searchingly as we were able some of the major facts and difficulties which must be faced and overcome if the objective is to be reached. With the benefit of another year of thought and discussion, we shall use this review as an opportunity to summarize our thoughts.

We believe that true social security will come not from any device of social insurance alone, but rather from the underlying economy. There is general agreement that the highest social security of all is that which comes from working in a productive and interesting job, and that the first step in providing social security is to create conditions in which our economy can become and remain efficiently productive. Such an economy produces the highest volume of those consumer goods and services which make up the material part of our living standard, and such an economy also tends to

distribute its products to the member individuals by the most efficient and logical route—productive employment.

Social measures—whether assistance or insurance—enter the picture only to catch up the loose ends of distribution which exist even in the best economy. When a man is truly superannuated or truly disabled, or when he becomes one of the unfortunates for whom the economy seems temporarily to have no job, then the normal methods of distribution do not work for him and we must find another way to provide for him a minimum subsistent income. We are trying to do that now by charity and relief. When the economy has an ample margin of production over subsistence it can afford to adopt more generous or more ambitious social measures; but it is the sound economy which creates the margin which makes these measures possible. Social insurance can pick up the loose strings of distribution which the ordinary methods of distribution—normal employment—leave untied, and thus it is one way of preventing *manifestation* of want. But social insurance cannot by itself prevent the *causes* of want, and to expect that is to ask it to do a job far beyond its power.

No social measure can bring about the sound economy. The economy must come first; and if there is any feature of the social insurance system which saps the vitality of the economy, then to that extent the system defeats its own purpose. If the economy is made less efficient, in the engineering sense, the same amount of effort put in will produce a smaller end product, and it is that end product which determines our standard of living and our degree of true social security. Social measures can help to distribute the product more fairly; but if in doing so they create conditions which cut down the amount to be distributed, the net decrease in production may more than offset the unquestioned advantages of better distribution. That is a real element of social cost which no realistic social program can disregard.

As we studied the underlying philosophy we came to believe strongly that the highest measure of social security can be won only by placing our trust in a sound economy of free private enterprise. It seemed to us that an unwise social insurance program might very easily create conditions which could seriously impair the efficiency of the economy. Present proposals seem to go hand in hand with an intent to stabilize the economy through government planning and management. Any general substitution of government controls for free private enterprise, however much it might help in solving problems of distribution, would substitute problems of production which, by cutting down the total product to be distributed, would leave us farther than before from true social security. A man in Washington is much the same as a man in business. Both can be motivated by conscience and honor, or by greed. Both can be lazy. But the business man has the spur of competition—of the *necessity* to be reasonably efficient or lose his shirt. The man in

Washington lacks that spur. The business man is subject to the police action of government—but who can effectively police the non-elected government administrator? We believe that government is necessarily, by its very nature, less efficient than private enterprise, and to that extent administration by government agencies may be a much more costly way of doing a job than administration by an agency which is subject to the profit motive.

We believe that centralization of a tremendous amount of economic power in Washington has long-run political dangers which carry a very serious threat to the efficiency of the private enterprise system, if not to its very existence. On a University of Chicago Round Table broadcast recently three prominent tax experts and economists agreed that our post-war federal budget might well be at least twenty-four billion dollars, *before* provision for veterans' compensation or military establishment or international commitments—and before social security payments. It will require a very productive economy to support any such budget, unless the burden of the nation's debt is reduced by inflation or by some direct means of repudiation. If we add the taxes to support a complete federal system of social security benefits, *then the spending of thirty to forty percent of our national income will be controlled by the administration in Washington.* Even assuming that the entire cost of the social security program was merely a transfer from present methods of meeting social cost—that is, assuming no net increase in social costs—such a concentration of power, by itself, should make us pause. That is a lot of power and responsibility to put in the hands of any group of men. Any such concentration of power in Washington might work passably as long as those who held the power were honest, able and intelligent men, but would be disastrous if the power came even for a short time into the hands of stupid, selfish or unscrupulous men. We find it hard to believe that in the long run such men would never reach Washington.

We believe, further, that any system imposed on the people from above rather than adopted by the people themselves after full discussion would be, in effect, a denial of the very democracy which we are fighting to maintain. The strongest statement in the whole Beveridge Report appears at the beginning of the last paragraph: "Freedom from want cannot be forced on a democracy or given to a democracy. It must be won by them." A part of the process of winning freedom from want is full public discussion. Such a discussion, if the leaders are temperate and intelligent, can bring about a major advance in democratic education. One of the objectives is a healthy, vigorous and enlightened citizenry; but such a citizenry is not to be developed merely by enacting a social insurance law. It is developed by discussion, by education, and above all by hard, productive, efficient work.

We believe that all these problems vitally affect our chances of attaining true social security—and these beliefs we tried to express in our paper.

The discussions noted the paper's emphasis on cost and on economic aspects. One reason for that emphasis is a distrust of the philosophy of those government officials who have most to do with developing government economic policies and government social policies. There are influential groups who would have our government put too much weight on its own economic influence and not enough weight on the constructive forces of natural human instinct. In that respect we are today approaching a position very much like that of two hundred years ago. Two centuries ago the barriers which government imposed against normal incentives held down economic development until they were broken by the forces of which Adam Smith was the intellectual spearhead. The breaking of the barriers made possible the Industrial Revolution and tremendous increases in the living standards of all. In recent years our economic development has again been hampered by artificial government-imposed barriers. Some of them, like tariff walls, have been imposed at the insistence of business men themselves, but they are none-the-less harmful. We cannot return to a *laissez-faire* economy; we do not need to do so. Continual government policing is necessary. It is widespread government intervention in business policymaking and business administration—as distinct from policing—which can bring unfortunate results. Not until we have less government intervention in these respects, rather than more, will society be able to realize the potentialities of free private enterprise. If that time comes, if we successfully shoulder the burdens of post-war reconstruction and readjustment, if we establish the atmosphere of reasonable confidence and understanding between the leaders of labor and management which alone can restore the political feasibility of rebuilding our economy around the profit motive, then we can approach the problems of social insurance with real hope of building a sound social security program.

Unless we can do those things to a reasonable degree there is not much basis for optimism toward our future. We fear that the theme-song of a managed economy would come to be, "I'd rather have a paper doll to call my own than have a fickle-hearted real live girl." We might achieve a sort of paper doll security, but we seriously doubt whether that sort of security is enough to induce our nation to give up all chance of winning the affections of a real, live economy, even if slightly fickle-hearted. For these reasons we are concerned first with the economic question rather than with social insurance problems. If we can have a sound economy, then we can consider how to have a sound social insurance program; but if there is doubt about having a sound economy then we want to concentrate our attention on the economic issues. To us, the foundation of economic policy must be laid on reasonably sound lines before we have very much interest in social insurance. That is not to say that some reasonable form of social insurance might not make even an unsound economy more bearable; but our interest isn't to put

salve on a sick system—we want to see the system reasonably healthy so that it can enjoy healthy pleasures.

The concept of “sound economy” is so important to this review as to call for special discussion of what these words mean to us. Nowhere have we used the phrase “sound *and prosperous* economy”—certainly not in the sense that there must be permanent prosperity without any thought of depression. There will always be economic fluctuations. The important thing is that the general framework of the economy, through good times and bad, be based on constructive recognition of what it takes to make the economy click.

In giving our opinion of a sound economy we would start by recognizing the profit motive, with all its good and bad aspects, as the foundation. The touchstone of economic policy would be the stimulation of the good aspects and the discouragement of the bad. Profit is essentially a selfish instinct, and where there is selfishness there can be abuse of the rights of others. The most important deterrent to such abuse is a general spirit of fair play and confidence. A democracy can't work—either economically, socially or politically—unless that spirit is an integral part of the life of the people. That spirit must be supplemented by the police action of government, but sound police action will make the fullest possible use of the ingrained integrity and mutual confidence of the citizenry. A government policy which tends to divide one faction against another—which tends to decrease rather than increase the confidence and respect of one citizen for another—is unsound and dangerous; and that is one important test of policy.

If the rights of others are protected it is rather hard to think of a way for a man to benefit himself without at the same time benefitting others. That is one of the major strengths of the profit system; and subject to the necessity for police action, sound government policy will avoid interference with the individual's efforts to benefit himself. Every time a Ford or an Edison or a Steinmetz is discouraged from following his self-interest—still recognizing the necessity for policing—the people as a whole are the major losers. Our federal tax policy is coming to be recognized as being extremely faulty in this respect. Further, whenever a decision of business judgment is made in Washington rather than by the man whose interest is directly affected the people are apt to lose rather than to gain. The SEC and the ICC, for example, contribute to well-being when they protect the people against the adverse effects of unfair competition or monopolistic rate making or misrepresentation of financial data, but there is more doubt about the benefits of their functions when they presume to decide whether or not railroad rates should be changed or whether a given company should use a bond issue or a stock issue to readjust its financial structure. Admittedly there is difference of opinion over where policing stops and business judgment starts, but we would put the burden of proof on those who would substitute the judg-

ment of any government employe for that of the parties affected in any matter of business policy.

It seems to us that the fundamentals in determining government policy—whether it be tax policy, labor policy, or whatever—are to keep responsibility for making decisions as close as possible to those who will gain or lose from the results of those decisions, and, by acting as referee when necessary, to foster the highest attainable degree of mutual confidence and respect among the people.

This sounds like standard classical economics, and that's just about what it is. Economics, like law and science and social customs, can be brought up-to-date to meet changing conditions. We do not need to accept every comma of Smith's or Marshall's writings as final, complete gospel, nor are we forced to the alternative of those Continental schools of economic thought which have contributed so much to economic thinking in Washington today. We have not observed that the results of the social and economic policies of any other country have been so superior to ours as to cause us to scrap ours and adopt theirs.

The thing which we fear most from present attitudes is that the social program would be part of a broad program characterized either by failure to comprehend the importance of the economic organization or by mistrust of the part which the profit system plays in maintaining a constant upward pressure on the standard of living. If we can have a social insurance program which avoids the dangers of federal centralization, a program which is not associated with a policy of handcuffing initiative and which has reasonable safeguards against damaging raids by organized minorities, then we could favor such a program. We will not have it overnight. Admittedly we won't make much progress if no one ever takes a step that he's not completely sure of in advance; but on the other hand progress would be rather uncertain if we refused to wear anything but seven-league boots. We need to prove our ability to digest our present program before we take major new departures.

We heartily mistrust hopeful wishing as a basis for action. Certainly there should be hope in all we do, but hope can burn higher if the preparations have not ignored considerations of cost and of difficulties to be overcome. Beveridge said, "Winning it (freedom from want) needs courage . . . to face facts and difficulties and overcome them." We have no confidence that the present proposals are based on any such facing of facts. In other words, we sympathize strongly with the goal but we heartily distrust presently proposed methods to reach the goal. We would try methods which might go under the same name but which would put a greater over-all reliance on individual initiative, supplemented by a more realistically designed program of social insurance than any yet proposed from Washington. A recent Fortune Magazine poll spoke of "cradle-to-grave security" as

having “about it something puling, something unappetizing and unenterprising”, connoting “a sticky official solicitude toward babes-in-arms and senile rocking-chair sitters—and everyone in the able-bodied years between”. It’s that “puling sticky attitude” which we particularly deplore as leading to the paper-doll brand of security. That attitude isn’t necessary to social insurance. If it can be washed away and the program reset in a healthy atmosphere then we believe that the sentiment in favor would be overwhelming.

It has been urged that we must provide assured subsistence in order to avert widespread discontent—“bread for all before cake for any”. There is no question that assured subsistence is needed at all times, not only to avert discontent (an approach which has in it an unpleasant concept of bribery) but also from an obligation of common decency. The level at which subsistence can be assured, however, does depend on the general standard of living. If too many crumbs are assigned to the purpose of meeting want, the standard of living as a whole will be lower than it need be. It is precisely the application of “bread for all before cake for any” that we fear. Unquestionably we want bread for all, but the very process of conceding cake as the reward for extra effort and ability actually develops a greater supply of bread—and even passes the cake around more freely. If the less fortunate elements of society knew what was really best for them and acted intelligently to further their own most selfish interest they would not deny cake but would constructively encourage the quest for cake.

Above all, we must recognize clearly that the issue is not between “social security” or “no social security”, but is instead between managed economy and the fifth freedom—freedom to produce. Unless that issue is clearly drawn our nation may find that in voting against “no social security” it has unwittingly saddled itself with a paper doll security not at all to its taste; and may learn too late that there was a much more red-blooded sort of security which it might have chosen if it had understood the issue.

Our whole theme is summarized by the statement that if social security is what we want, the very best possible social security will come from honest, wholehearted confidence in the profit motive, properly policed, and supplemented by a sound, conservative, realistic program of social insurance. The social insurance by itself isn’t “social security”; true social security requires the freedom of efficient production in order to create the greatest possible amount of goods to be shared. Social insurance can help share the goods more fairly, but it can’t produce the goods. You can’t eat social insurance. Social insurance is a *part* of social security, but the economy must be recognized as the major part. As Mr. Epstein said, “We mustn’t let the tail wag the dog.” And if we want the healthiest possible dog we will feed it a liberal diet of private enterprise.

SAMPLING THEORY IN CASUALTY INSURANCE

ARTHUR L. BAILEY

VOLUME XXIX, PAGE 50

WRITTEN DISCUSSION

MR. A. H. MOWBRAY:

The Society is to be congratulated on the presentation of this paper (of which so far only the Introduction and Parts I and II have appeared in print) and the paper "Notes on Mathematical Statistics" by Mr. Satterthwaite. These two of our younger members have thus called attention to powerful methods of investigation which may help solve some of our perplexing problems.

It has, of course, long been recognized that the insurance business is a business of averages which are not wholly stable in themselves but are much more stable than the individual risks from which those averages are derived. It has also been recognized for some time that there may be subordinate averages within any class which are characteristic and this has given rise to modification of class rates by merit rating. But few have grasped the significance of the fact that the forms of distributions of risk hazards about the class average and of the risk experience of particular periods about the true risk hazard are or should be the important determinants of credibility factors and of merit rating formulae in general. It is because they attack this problem that the papers are important.

It is true that these papers go further into theoretical mathematical statistics than even most of our members are prepared to go and that rating plans which must pass scrutiny by state officials and the insuring public must be expressible in terms understandable to the layman. But if we can be sure our theoretical formulation is right we can usually find a way to present it that will be acceptable. If we have to simplify and compromise we should at least know fairly clearly what is the effect of the simplification and where is the compromise. In many cases in our pioneering efforts those were just the things we did not know.

Until the desire for experience rating posed the problem and led to the unit system of reporting there was little opportunity for study of distributions. The individual companies have detailed records of individual risks and individual losses but the total data of any one company was too limited to make such study tempting or promising. But with the unit data reported to the bureaus there is now available the material for fruitful study in this field.

Once the exploration of the field is earnestly taken up it seems certain that occasions for the use of others of the powerful tools of modern statistical

analysis will arise. For example, it seems likely that good use might be made of R. A. Fisher's Analysis of Variance in considering questions of consolidating or subdividing classes. Nor, I think, do we need fear too greatly objection on the part of our assureds to theoretical methods. Business, especially manufacturing, is gradually learning the validity and power of these types of mathematical analysis of statistics and planned experiment. The growing successful adoption of the Shewart technique of specification control of quality of manufactured product is one indication of this.

Mr. Bailey's demonstrations that the characteristic distributions in casualty insurance are of the Poisson Exponential type are clear and convincing and the assumptions he makes for the purposes of his exploration seem realistic and reasonable.

The development of the moment formulae for the several distributions he studies gives the paper a forbidding appearance of high mathematical requirement that may lead our older members to pass it over. This would be most unfortunate. In general, they will have most influence with executives in getting favorable consideration of the use of such investigations and techniques. It is, of course, necessary for the author to submit that part of his work to his colleagues for review and criticism. But it would, I think, add to the general readability of the paper if a summary statement of what is accomplished by use of them appears in the body of the paper and the development then given in an appendix.

The somewhat intemperate reference in the second paragraph on page 51 to the retrospective rating plan seems a bit unfortunate as likely to prejudice, in this highly competitive business, a reader against the author and all he says, unless the later parts of the paper to be presented at a subsequent meeting take up this plan and show that it is a "form of gambling." If the retrospective rating plan is not sound in theory, of course, like constant "c" which was in the experience rating credibility formula for a short while, it will be relegated to the limbo of things forgotten and be replaced by a plan which will stand the test of analysis in the light of modern theory of statistical distributions. We hope the application of the test will not be retarded by a feeling that the test is a competitive weapon.