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InsuringMorality

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Keywords:insurance,risk,moralregulation,moralhazard,actuarialism

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Thisarticledescribes and comparest wo forms of moral regulation employed inconnection with insurance institutions. The first governs through moralized personal attributes or pressures like "temptation" and "character." The second governs through moralized institutional or system attributes and processes described interms of "efficiency." The article traces these forms of moral regulation from the mid-19 the entury to the present, arguing that both continue to inform popular and specialized discourses of risk.

Insuranceisoftendescribedinthe"governmentality"lite ratureasarationalizingtechnology,the productofdisinterestedactuariestechnicallymanipulatingpopulationsintocategorieswhoselossescan bepredictedwellenoughtoproduceprofitsforprivatecompaniesandaccuratebudgetsforstate enterprise. (e.g.,Ewald1991,1999b;Simon1988;Defert1991).Inthisviewinsuranceappearsasan amoraltechnologythatactsonandthroughpopulationswhosevalues,customs,identities,allegiances, practicesandsoonaretheproductofanearlier, "moralistic, ""juridical"or"organic"agethatisgiving waytotherationalizingeffectsofinsuranceandotherformsoftechnology.(Cf.Beck1992)

Suchworkhasdonemuchtodeepenourunderstandingoftheinsurancefield,thestudyofwhich recentlyhasbeenl eftalmostexclusivelytoeconomists. Yet, while ithas illuminated some of the diverse social meanings and contexts of insurance, this work too of tenshares with the economic sliterature a presentation of insurance that accepts the actuarial standpoint of insurance practitioners (but see Ericson 2000 and O'Malley 1999). For example, in Ewald's (1991, 1999b) in sight ful analysis of the role of insurance indeveloping at the end of the 19 the century a "social" morality of risk that varied considerably from the prevailing "individualistic" or "juridical" morality of risk, the insurance that is driving this development is represented as an abstract technology, a form of social physics, that operates on, but not

through,moralintention. ¹Likewise,whenDefert(1 991:212)describedthedevelopmentoftheprivate marketantecedentstosocialinsurancein19 thcenturyFrance,heidentifiedinsuranceasatechnologyof socialrationalitythatiscounterposedto"traditionalormoralimperatives."Similarly,whenSimo n summedupahostofseeminglyunrelated,morerecentdevelopmentswithintheframeworkof"actuarial practices"he,too,employedavisionofaninsurancetechnologythatactson,andnotthrough,morality. Indeed,Simon'sdystopiancritiqueof"theide ologicaleffectsofactuarialpractices"restsonthe"de moralization"thatresultswhenactuarialpracticesaggregatehumansubjectsaccordingto"thenumerous formalattributesthatcoulddescribethem."(1988:793 -94)

Yet, within the insurance field there is a counter -story of insurance as an explicitly moral, and moralizing, set of institutions. This counter -story operates to this day very much within a disciplinary framework - a framework that Simon explicitly, and Ewald and Defertimplicitly, contrast with the "actuarial" (Simon) or "insurantial" (Ewald and Defert). It also call sint oquestion the dichotomy between the "moral" on the one hand and the "technical," "actuarial" or "insurantial" on the other.

Ewald, Defert and Simon have identified on ceptually distinct and important forms of the regulation of self and others, but both can operate as forms of moral regulation (cf., Hunt 1999): the counter -story self -consciously so, the actuarial story effectively so. Indeed, as hift to actuarial or demographic ways of thinking does not eliminate appeals to the good, true or be autiful, its implyint roduces a different frame for those appeals.

Ibeginbysketchingthecounter -storyofinsurance,astorythatwastoldinconnectionwith measuresfirst takenby19 thcenturyAmericaninsurancecompaniestoaddresswhattheycalled"moral hazards"(i.e.,negligentandfraudulentinsureds),aswellassituationsthattemptedotherwisegoodpeople inthatdirection.Forthesecompanies,moralhazardwas,ab oveall,afunctionofthe *character*ofthe individualsinsured,and,thus,themeasurestheytooktoaddressthathazardfocusedonindividuals:

characterunderwriting, exhortationstoresponsible behavior, inspections and claims investigations. From this perspective, both risk and insurance were moral proving grounds, and in order to protect their interests, the companies engaged in an overtly disciplinary form of moral regulation.

Yet,whenweexaminetheeconomicsofinsuranceclosely,wefindthatitdoesembody adistinct morality.Likethemoraljudgmentsofthe19 thcenturyinsurers,theeconomicsofinsurancedivides populationsintogoodandbad,excludesatleastsomeofthebadfromtheinsurancepool,anddesigns insuranceinstitutionstotakeintoaccoun tthelimitsofvirtueasabasisfortheorderingofsociety.Of course,therhetoricisquitedifferent(andso,sometimes,aretheresults).Insteadofcharacterand temptation,wefindriskandincentive.Insteadofgoodandbadpeople,wefindlow andhighrisks.

Insteadofmorality,wefindefficiency.Nevertheless,anorientationtowardefficiencycanbenolessa formofmoralregulationthanmoretransparentlymoralizedapproaches.Indeed,economicanalysiscan beunderstoodasanattemptto replaceareflexive,traditionalmoralitywitharationalmoralitybasedon maximizingsocialwelfare.Thus,ratherthanabreakbetweenthemoralizingdiscourseoftheindividual

orthejuridicalandthede -moralizingdiscourseofeconomicsortheactuar ial,wefindacontinuityof moralinflection.

Withafocusoncontinuitiesratherthanbreaks, it is easier to see that the actuarial or economic account of insurance has not "replaced" an "earlier" individual or juridical account. Present day images of insurance in both popular culture and the insurance trade expressa character -centered understanding of insurance that the actuarial account might be thought to have left behind (Baker 1994, Glenn 2000).

Similarly, many of the 19 the century sources for the insurance temptation (moral hazard) can also be read as earlier expressions of the economists incentive. Thus, rather than identifiable moments in intellectual history, the juridical and the actuarial reflect competing (and in some cases complementary) approaches to risk that are manifested in different ways in different places and times.

CharacterandTemptation inthe19 thCenturyInsuranceTrade

th century in surance tradewas suffused with explicitly InkeepingwithVictorianideals,the19 moralconcerns.(Cf., Houghton 1957). Conceptually, insurers located and managed these concerns throughattentiontowhattheycalled"moralhazard."Theconceptofmoralhazardwasfirstusedinthe fireinsurancetradeasawaytodistinguishbetweenrisksr elatedtothephysicalnatureofinsuredproperty andrisksrelatedtothepeopleassociatedwiththeproperty.(Baker1996)Fireinsurershadlong recognized the importance of identifying the *physical* hazards that faced an insured property. In the mid tolate19 thcentury,theybeganusingtheterm" moral hazard"torefertohazardsrelatedtothebehaviorof peopleinconnectionwithinsuredproperty.(Baker1996:248)"Incendiarism, "fraud, and "interested carelessness"weremoralhazardsthatcause dlosses.Badcharacterorhabits.financialembarrassment. poorbusinesspractices, and overinsurance were moral hazards that increased the probability of loss. (Ducat1865:9 -15)The"moral"insuredwashonest, careful, chaste, thrifty, hardworking, mod eratein habits, and did not gamble.

Fortheseinsurers,moralhazardwasalabelappliedtobothpeopleandsituations. Thepeople werethosewhose character suggested that they were unusually susceptible to the temptation that insurance can create, and the situations were those that he ightened that temptation. The 1867 edition of the Aetna Guideto Fire Insurance illustrates both these senses of moral hazard and the relationship between the two. The Aetna Guidebegins its description of the under writin gprocess by admonishing agents to "consider first the moral hazard" and then asks:

Whatisthegeneralcharacterbornebytheapplicant? Arehishabitsgood? Isheanold resident, or a stranger and an itinerant? Isheeffecting in surance hastily, o rforthe first time? Have threats been uttered against him? Ishepeace able or quarrelsome -popular or disliked? Ishis business profitable or otherwise? Hashebeen trying to sellout? Ishe pecuniarily embarrassed? Is the stock reasonably freshandnew , or old, shop worn, and unsaleable? When was an inventory last taken? Is the amount of insurance asked for, fully justified by the amount and value of the stock? Is a set of books systematically kept? (Aetna 1867:21).

Character, orthein dividual predi sposition for fraudorloss, is a dominant concernhere. It is the job of, first, the agent, and then the under writer to we edout "moral hazards" - those in sured smost likely to be careless or fraudulent. (See also Ducat 1865, Tiffany 1887:55, Weed 1904: 21)

The A et na Guide also stressed, however, that the rewere certain situations that posed a moral hazard for all insureds, regardless of individual predisposition:

Theinsuredshouldnevermakemoneybyaloss. The contract shouldnever be so arranged, that under any circumstances it would be profitable to the insured to meet with disaster. Any other arrangement is offering a premium for carelessness and roguery.

(Aetna 1867: 157. See also Ducat 1865: 11 -12, Tiffany 1882: 46, Tiffany 1887: 55).

Evenin thisdescription, there is a strong reference to character - "careless ness and roguery." The good in sured, like the good person, was neither careless no rarogue. But, because careless ness and roguery, like all sins, are potentially present in even good people, in surance must be structured so as not to "lead us into temptation." Thus, the insurance moral hazard is not only the immoral person, but also a characteristic of the insurance relationship itself.

Thefocusontemptationisevenmoreexplicitwith inwarningsaboutoverinsurance: "Heavy insurancealsoincreasesthemoralhazard, by developing a motive for crime, where otherwise no temptation existed, and wrong was innow a ycontemplated." (Aetna 1867: 159). This link reveals an important point: Eventhesituational aspecto for or alhazard was understood in moral terms. The classic situation in which in surance most changes in centives—over insurance—works through temptation, by bringing out the badinotherwise good people:

Relievepartiesfromtem ptationtoburnwhereitexiststhroughtoofullinsurance,foryou canbesurethatamoneypressureorothershocktotheprofitsoftradedoes,inthe aggregate,createmanyveryquestionableandunsatisfactorylossestounderwriters.

Tiffany(1887:55)

Thus,moralhazardwasunderstoodtoderivefromtheinterrelateddynamicsofcharacterand temptation. Theworsetheinsured'scharacter, thelesstemptationneededtoprovokehertocheatthe insurancecompany, and the more likely she is to see kout as ituation in which the temptation is present.

As insurance manuals would have put it, there is no premium highenough for abuilding under the care of an arsonist. And, when the best price that can be obtained for abuilding is from the insurance compa ny, even an honest person "would not be an gered by the discovery that it had been burned." (Weed 1904).

An insured meeting an under writer 's moralide alwould not yield even in the face of the strongest temptation. But this ideal is impossibly high and, therefore, character under writing, alone, is not enough.

Insurersmustworktoreducethetemptationinsurancecancreate.

Themoralideal, VanityFair 'sColonelWilliamDobbin,istheexceptionthatprovesthisrule. Neartheconclusionofthatnovel,Co lonelDobbin'swifelearnsthatherbrotherhadtakenoutalife insurancepolicyonhimself, and "inagooddealofalarm" assumed that her brother was financially embarrassed(apparentlybecauseagentlemanwasthoughttohavenoneedforlifeinsurance unlesshis creditorsdemandedit). Immediately shed is patched Dobbinto seeher brother, who explained that he had takentheinsurancepolicyouttoprovidea"littlepresent"forhisdisreputablecompanion,LadyRebecca Crawley,theformerBeckySharp(to whomhewouldbeembarrassedtoleaveanythinginhiswill). Dobbincounseledhisbrother -in-lawthatRebeccawascapableofkillingforthemoneyandwarnedhim tobreakofftherelationship.(Thackeray1848:794 -96)Whenthebrother -in-lawdiedthree monthslater, itturnedoutthatthelifeinsuranceproceedswerepayablehalftoRebeccaandhalftoDobbin'swife.The InsuranceOfficeatfirstrefusedtopayRebecca -"thesolicitoroftheInsuranceCompanysworeitwas theblackestcasethateverhad comebeforehim" -butrelentedunderpressurefromRebecca'ssolicitors, Messrs.Burke, Thurtell, and Hayes (names that, according to the notes to the Penguin English Library edition, then in eteen the century reader would have known as notorious murderers) .(1848:813)Colonel Dobbin,however,wasmadeofmuchfinerstuff.Thackerayreportsthathe"sentbackhisshareofthe legacytotheInsuranceOffice,andrigidlydeclinedtoholdanycommunicationwithRebecca." (1848:96)

Asthisvignettesuggests, the problem of moral hazard makes every claimatle ast potentially suspect. Without investigation, there is now ay for the adjuster to know whether the fates conspired against an innocent insured, whether the insurance temptationer oded the moral balance of a former innocent, or whether, as in the case of Thackeray's Becky Sharp, the claimant's bad characters omehow escaped the examination of the insurance under writer who is sued the policy. As a result, every claim requires the insurance adjuster to make a moral evaluation of the claimant.

The 1868 edition of the Handbook of Adjustment of Loss or Damage by Fireillustrates this conception of the insurance adjuster's role. (Griswold 1868). The Handbook opens by explaining the many difficulties that attend the "art" of insurance adjusting and then attributes those difficulties to two causes: "the policy and the insured." The Handbook's problems with the firein surance policy do not concernus here (they concern the difficulty of expressing in words the intent of the under writers and the conflicting and overlapping coverage provided by different firein surance forms), but the problems with the insured are worth quoting at length:

Asarisingfromtheinsured ;whomaybedividedintotwoclasses,viz.: the honest and the dishonest. The honest are notunfrequently ignorant and obstinate; a varicious and suspicious; pronetoovervaluation of their loss; without books of accounts or other vouchers upon which even an approximate estimate of the loss can be a fely made, and while thus unable, or unwilling, to afford any assistance in arriving at the amount of loss are, nevertheless, ready at every turn adverse to their claim, to charge the adjuster with an attempt to defraud them of their rights.

The *dishonest*: Asitisestimatedthatfullytwo -thirdsofourfiresareincendiary, originatinginfraud, this class will necessarily occupy a largeshare of the adjuster's attention; and in a smuch as parties who intend to defraudin surance companies in this manner, w ill lay their plans with more or less skill or shrewdness, in order to avoid suspicion, they will require to be met with zeal, prudence and ability on the part of the adjuster. Such attempts are not unfrequently frustrated by a system of close watching and masterly in activity, for they cannot be arthetest of delay and constant scrutiny. (1868:8[italics in original]).

Thejobofthefireinsuranceadjusteristodeterminewhethertheinsuredishonestordishonest andtoevaluatetheclaimaccordingl y.Eventheclaimsofthehonest,however,needcarefulscrutiny becauseoftheproblemsofignorance,avariceandsuspicion.And,astheclaimsofthedishonestcan

easilyappeartobehonest,theadjusterneedsasystemof"closewatchingandmasterly inactivity."(See alsoTiffany1887:266 -267).Firesofunknowncausepresentthegreatestchallengetotheadjuster's investigativeskills.Thereare"manycircumstancesshouldhavedueconsideration,"butthe"first"is:

theinsured,andhispossibleag encyinthefire.Hismoralcharacter,standingand businesscircumstancesshouldbeweighed;hisantecedentsshouldbeinquiredinto:Has hebeenburnedoutbefore?Washeinsured?Didherecovertheinsurance?Any suspiciouscircumstancesattendings uchfire?Didheloseanythingabovetheinsurance? Ishenowinvolved,oroverloadedwithunsalablestockonafallingmarket?Isheowner oftheproperty,orisitleased --inlitigationorunproductive?Hashemadeanyattempts tosell? *Isheover -insured*?Infine,docircumstancesindicate,inanyway,thatitwould beanobjectforhimtoselltotheunderwriters?(Griswold1868:35[italicsinoriginal])

AstheHandbook,theAetnaGuideandmanyother19 thcenturyinsurancesourcessuggest, insurancewasunderstoodasapotentialthreattothemoralorder —becauseofthetemptationitcould createandthebadcharacteritcouldreward.(SeealsoZelizer1979,reportingonlifeinsurance)

Therefore,insurancecompanieshadanobligationto serveasguardiansofthatorder.Insurancewasfor goodpeople;badcharacterwasaperfectlyacceptable,indeed,laudablereasonforrefusinginsurance coverage,butevengoodpeoplehadtobeprotectedfromthetemptationthatinsurancecouldcreate. And, becauseanyclaimcouldbetheproductofthattemptation,eachclaimrequiredamoralevaluationofthe claimant.

Implicitinthisapproachtomoralhazardisadistinctivemoralityofriskanditssubjects.Riskis constructedasa"bad" —th epossibilitymanifesttodayofunfortunateeventsinthefuture.Althoughthere isanimplicitrecognitionthat,throughinsurance,riskcouldbeturnedintoa"good,"atleastfromthe perspectiveofanindividualinsured(forexample,onewhoinsuresa buildingfortwiceitsvalueandthen

praysforlightningorwhoinsuresalifenothisown), welearnofthatrecognition only from admonitions and other devices designed to preventinsurance from transforming risk in this manner. Agents are urged to preventover in surance; adjusters are urged to ensure that in sured snever receive more than the value of their property in the settlement of a loss; courts are urged to adopt a series of legal doctrines so that in sured snever gain through loss; ² and the origin so finsurance in speculation and gaming are actively suppressed. (Baker 1996, Clark 1999, Pears on 1990, Zelizer 1979).

Throughtheinsuranceclaimsprocess, the unfortunate events that dooccurwere also subject to a moral calculus, one that turned up onjudgments about causes. The most deserving claims were the consequences of fate —randomevents, out side anyone's control —or the fault of people out side the victim's control. The most undeserving claims were the consequences of fraud —deliberate at tempts to cause (or fake) harmand the reby steal money from the insurance fund. In between, we reclaims that were the consequence of the "interested carelessness" that results from giving into the insurance temptation and those that we rethe consequence of the more or dinary, but still blame worthy, relaxation of vigilance that comes from the security that insurance provides.

The 1868 Handbook (Griswold 1868:35) illustrates this moral calculus as well: "Fires may be said too riginate from three primary causes, viz.: accident, carelessness, and design." Accidental fires deserve immediate compensation, and intentional fires immediated enial. Carelessness occupies a more ambiguous position. The Handbook complains that "[t] here is no remedy at present under the law for carelessness, "but notes, hopefully, that "grossnegligence on the part of the party towhom money was payable in case of loss, is presumptive of fraud; and if established by strong proof would prevent recovery." Similarly, Tiffany (1887:271) writes:

 $In dealing with a suspicious loss, an adjuster is justified in taking every advantage \\possible, if he is satisfied that the loss is not the result of an accident, for the claim anth as the property of the context of the property of the$

goneintothethingwithhiseyesopen, fullyknowingtheexact status of affairs, and the case being merely one of sharpness versus dishonesty, the adjusterneed have no scruples of conscience, but lethis faculties have fulls way, and the keener the knifecuts, the better, for fraudshould not be palliated in such a ses.

Especiallyinthepresenceofinsurance, this badthing —risk—was attributable, not only to the interaction between fate and the material world, but also to the moral weakness of individuals. This understanding of the insurance risk may explain how it was that insurance institutions came to engage in disciplinary practices. (Foucault 1978, Dreyfus & Rabinow 1983) If risk was in part a product of moral weakness, one way to reduce it was to attack that moral weakness. The tools were classificati on and exclusion (of immoral insured sand of especially tempting kinds of insurance coverage), in spection (of prospective insured sand insurance claims —in the Handbook's memorable phrase "close watching and masterful in activity"), and exhortation (to age nts, adjusters and insureds) —all with the aim of shaping individuals into normal, predictable bundles, so that the rates charged to day would be sufficient to cover the claims of tomorrow.

Thus,ontheground,insurancewasthoroughlymoralizedduringt he 19 th centuryperiodthat EwaldandDefertdescribeasthebirthoftheactuarial. Throughsuchtechniquesastheexclusionofthe immoralandthesurveillanceofthebehaviorofthoseallowedintotheinsurancepool,insurance institutionswereexplicityengagedinmoralregulation. These observations are supported elsewhere in thein surance literature by PatO' Malley's work on industrial life insurance in Britain, and Viviana Zelizer's work on 19 th century life insurance in America (O' Malley 1999, Zelizer 1979). Indeed, as Zelizer describes, the explosive growth of the U.S. life insurance market in the second half of the 19 th century was in extricably tied up with the ideological work of insurance promoters. They transformed life insurance from a pressure transformed life insurance from a pressure transformed to the century was interference with divine Providence into God's gift for the protection of

widowsandchildren.Similarly,asO'Malley'sworkshows,muchofthedisciplinaryinterventionof thoseinsuringthelivesof"thepoor"inBritainwasfoundedontheexpl icitassumptionthatinsurance wasamoralizingtechniquethattrainedsuchpeopleinthevirtuesofthriftandprudence(seealsoClark 1999andPearson1990).

From Character and Temptation to the "Technical" Concept of Moral Hazard

Inearlierwork(B aker1996), Idescribedhowa "technical," "neutral" *economic* conceptof moral hazardisemployedincontemporaryacademicandpublicpolicyliteratureinawaythatechoesitsovertly moralisticorigins.Icontrastedthatmoralisticusewiththeclaimth at,inits"pureform",theeconomic conceptofmoralhazardhas, as one leading economist wrote, "little to do with morality." (Pauly 1968). The assumption was made, in other words, that the category of "moral hazard" generated by economics throughthe useofformallogic,probabilitytheoryandstatisticalanalysis,didproduceade -moralized conceptionofinsurance, butthatits (implicitly, illegitimate) deployment within moralized programs gave nacceptingthatcategoriessuchas"moralhazard" itmoralcontent. Themistakehere, Iwouldargue, isi or "actuarial fairness" could ever exist independently of the identities, norms, and affiliations that constitute the lived moralities of the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in that social field. Ewald, Defert and Simon are also as the people acting in the peoplee clearly right that people using those concepts can create institutions that (slowly and unpredictably) change(andarechangedby)identities,normsandaffiliations.Nevertheless,theprocessisbetter understoodas"re -moralization"than"de -moralization," -andwewoulddobetteryetsimplytopay attentiontomoralitiesandprocessesofmoralizationaswechartthepathofinsuranceconceptsand institutionsovertime. ³

IntheremainderofthisessayIwillsupportthisclaimbyre -analyzingtheneo classicaleconomic approachtoinsuranceastheembodimentofacompetingmoralityofrisk.Itisworthpayingcareful

attentiontoeconomicanalysisbecauseoftheenormousinfluencethatithashadwithinatleastthe
academicsectoroftheinsurancefi eld.Indeed,Iwouldarguethattheeconomicsofinsurancerepresent
theepitomeoftheactuarialapproachtoinsurance.Theleadinginsurancejournalsandacademic
departments(atleastintheUnitedStates)arepopulatedbyeconomists.Policydebates overthenature
andextentofpublicinsuranceortheregulationofprivateinsurancearealmostalwaysframedin
economicterms.Moreover,eventhosewhobelievethatneoclassicaleconomicspresentsanoverly
stylizedanddeterministicvisionofinsuran ceneverthelesslearnatleastthebasicsofeconomicanalysis
andcannothelpbuthavetheirunderstandingshapedintheprocess.(E.g.,Ewald1999a)

Thepersonmostresponsiblefordevelopingtheeconomicsofinsuranceintoacentralfocusof neoclassicaleconomicsisKennethArrow.Intheearly1960s,Arrowwasaskedtoanalyzetheeconomics ofthegrowinghealthcaresectoroftheU.S.economy.Arrowreportedtheresultsofhis"exploratoryand tentativestudy"ofmedicaleconomicsinanarticlepub lishedinaprominenteconomicsjournalthat announcedhissupportforgovernmentprovisionofhealthinsurance.(Arrow1963)Inthatarticle,Arrow addressedthe"moralhazard"ofinsurance,whichheexplicitlydefinedas"theeffectofinsuranceon incentives."(1963:961).Arrowdescribedthateffectasoccurringwhen"theeventagainstwhich insuranceistakenout"lies"inthecontroloftheindividual"whobenefitsfromtheinsurance.Insurance createsa "moralhazard"bychangingtheincentivesof patients:theynolongerbearthefullcostoftheir medicaltreatmentand,thus(allotherthingsbeingequal)willbemorelikelytovisitdoctorsmoreoften andusedoctorswhousemorecostlymedicalservices.

Theword"moral"inArrow's"moralhazard ,"likethe"moral"inthe18 thcenturymathematician NicholasBernoulli'sconceptof 'moralvalue," wasnotintendedtohaveamoralisticmeaning, butrather tocallupontheideaof "subjective expectation." (Dembe & Boden 2000) Bernoulli's "moral value," which Arrowhad explored in earlier writing (Arrow 1953, as referred to in Dembe & Boden 2000), meant

the "subjective value" (or,perhaps, idiosyncratic value) that aparticular individual assignsto aparticular riskorbene fit—anideathathas been credited as the source of the concept of individual utility that is central tone oclassical economics. (Dembe & Boden 2000) Similarly, Arrow's "moral hazard" refers to an situation in which there is a subjective value placed on a risk that differs from the objective or social value of that risk. For Arrow, moral hazard occurs in situations in which the subjective cost that an individual attaches to a particular risk is less than the cost of that risk from an objective or social point of view. Because in surance shifts the cost of the loss from an individual to an insurance company, in surance presents just that situation.

Inbroadoutline, the moral hazard of economic theory is a more analytically precise version of thetemptationhalfoftheinsurance trade'smoralhazard. If the insurer's answer to the insurance temptationcouldbecapturedinaslogan, it would be "never again from a loss." The corresponding sloganfortheeconomistwouldbe"lesslossfromlossmeansmoreloss."Startingfromthe assumption ⁴itfollowsthatinsurancewillcausealossofagivenmagnitudetobe thatmoneycompensatesforloss, feltbyanindividualinsuredasifitwerealossoflessermagnitude. Afterall, that is the very point of insurance. 5Theratioof "act ual" (or "objective") loss to "felt" (or "subjective") loss in any particular situationwillvaryaccordingtotheextenttowhichinsurancecompensatesforthe"actual"loss. Assumingfurtherthatpeoplearerationallossminimizerswhoareincontrolof themselvesandtheir surroundings, that taking care is effective, and that insurance companies do not condition payment on a givenlevelofcare, it follows that people will respond to insurance by taking less care, and, therefore, incurringmore"actual" (butnot "felt") loss. Hence, less (subjective) loss from (objective) loss means more(objective)loss. This conclusion, together with the assumptions from which it follows, is the essenceoftheeconomist'smoralhazard.

Themostobvious difference bet ween the economists' and the insurers' conceptions of moral

hazardistheroleofcharacterineach. Asdiscussedearlier, eventheinsurers' response to the situational or temptation aspect of the moral hazard can be understood as an effort to make in sura nceless attractive to "moral hazards" - that is to say, to people with undesirable character. While Arrow's early writing demonstrated some regard for character (Arrow 1968), character never the less has disappeared from the economists' moral hazardanalysis. (What is left of characterisad dressed by the economics of adverse selection, discussed below.) In the process, moral hazard becomes a property of insurance arrangements, not of the individuals who enter those arrangements. In contrast to the earlier insurance concept, the economic concept focuses less on the individuals within surance than on the institution sthat provide that insurance. From this perspective, risk is less dependent on the character of individual insured sthan on the incentive sthey are given, and, correspondingly, less a measure of the character of individuals than a measure of the institution alst ructure serected to protect them from risk. Thus, the encounter with risk becomes a test of institutions, not a test of individual character.

Arelateddifferenceoccursinthemetamorphosisoftheinsurancetemptationintoanincentive. Wheretheinsurancewriters "temptation" evokedaconfrontationbetween good and evil, the economists' "incentive" evokes a cost -benefit calculation. Bo themptation and incentive are matters of degree, but the category "temptation" gives greater attention to the moral worth of the individual who responds (or not) to the temptation. Temptational sole adstoase archforatipping point, the point up to which is a fet to go without concern that the individual will succumb to that temptation. Hence, the fire insurer's concern about "gain throughloss." That gain was aspecificone: the ability to get more money from the insurance company upon the destruction of the insured property than through continued operation or sale of the property. The economists "incentive, "incontrast, is a force that acts on all people. For the economist, gain is a matter of degree, and, absent some countervailing incentive e, in surance of any sort, in any amount, will change behavior.

Partofwhatisgoingonhereisashiftinthetreatmentofthe subjectofinsurance.Inthe insurancewriters'account,thesubject(theinsuredperson)isanindividualwithauniquechara cterthat, withinlimits of course, can be known and accounted for by the insurer. Exactly how insurers will do this isnotwellspecified;noristhereawell -developedpsychologyundergirdingtheiraccount.Instead, acticalknowledgeofinsuranceagents, underwriters and adjusters. insurersrelyonthecommonsense,pr Regardlessoftheefficacyofthisapproach(andhowcouldwepossiblyknowgiventhatinsurersdonot collectdataonthelossesofpeopletheydonotinsure?),theresultisthatinsurer stakeanexplicitlymoral measureofthepeopletheyinsure.Intheeconomicaccount,incontrast,theinsuredisarationally calculating, "thin" subject whose character cannot be known or accounted for on an individual basis. In a sense, the economics of insurance brackets the subject -treatsitasa"blackbox" -perhapsprecisely because(afterFreudandothers)ofalossinconfidenceintheabilitytopredictcharacterorbehavioron anindividuallevel.Regardlessofthereason,however,theeco nomicsofinsurancedoes nottakeamoral measureoftheindividualinsured.

Byholdingcharacterconstant, and by focusing on the institutional structures that encourage rational people to actinone way rather than another, the economics of insurance appear to leave morality behind (except insofar as morality is understood as an institutional structure, cf. Arrow 1968). Immorality is not the cause of moral hazard and virtue is not the solution, because moral hazard is the result of people acting in their best interests. Similarly, moral hazard is not a threat to a moral order, it is simply a challenge to the efficient allocation of resources. The touch stone is efficiency, not morality.

Yet,ifwecomparewhatthe 19 th century insurers did in the name of morality and what economists call for in the name of efficiency there is a surprising overlap. Recall that the Aetna Guide and Griswold's Handbook urged the use of four tools for the preservation of morality in the face of insurance: classification, exclusion, limitation of benefits, and monitoring. In surers we reto classify

applicants into good and bad, exclude the bad, limit in surance benefits so good people were not tempted towrong, and engage in "close watching and masterful in activity" toweed out the bad who slipped through and the good who succumbed to the insurance temptation.

Theeconomicsofinsurance callfortheuse of the same tools, albeit in the name of efficiency. Insurersshouldlimitbenefitsandmonitorbehaviorinordertocor rectthenegativeincentives(i.e.moral hazard)thatinsurancewouldotherwisecreate.Limitingbenefits(throughcoinsurance,deductibles,or limitsontheriskscovered)providesanincentivetobecarefulbymakingpeopleshareintheirlosses. Monitoringprovidesanincentivetobecarefulandhonestbyprovidingtheinsureralegitimatebasisfor refusingtopayifpeoplearenot.Similarly,insurersshouldclassifyapplicantsandexcludethe undesirable, because of the related problem of "adverse" selection."(Adverseselectionreferstothe tendencyforinsurancetobepurchasedbypeoplewhoaredisproportionatelylikelytoexperiencean insured-againstevent.(Rothschild&Stiglitz1976).Absentcountervailingeffortsbyinsurance companies, theresultisthat the insurance pool will consist disproportionately of people with undesirable riskcharacteristics.(Akerlof1970).)Accordingly,insurersshouldclassifyapplicantsonthebasisofrisk and exclude the most risky. The problems address edare"risk"and"incentives"ratherthan"character" and "temptation," butthe solutions are much the same as those offered by the 19 thcenturyinsurancetexts.

Indeed,ifweregardmoralityinHunt's(1999:6 -8)terms –asaformofgoverningthatseek sto actonconductthatisdefinedasintrinsicallygoodorbad –thenwecanseethatbothapproachesare formsofmoralregulation. The first governs through moralized personal attributes or processes described interms of "efficiency." In the insurance context, both moral discourse sjustify dividing populations into categories that are more and less desirable, and both valorize the desirable e. For example, Rothschild and Stiglitz's classicartic leon the economics of insurance explains that, "By their

verybeing,highriskindividualscauseanexternality[(akindofinefficiency)]:thelowriskindividuals areworseoffthantheywouldbei ntheabsenceofthehigh -riskindividuals."(1976:629)AlthoughIam surethattheywouldinsistthatthereisnothinginherentlybetterabout"lowrisks"than"highrisks," neverthelesstheyreportthathighrisksharmlowrisks(eitherthroughcrosssu bsidiesorbyforcingthe lowrisksoutoftheinsurancepool),whichmakeshighrisks"bad"forlowrisks.

Despitetheapparentneutralityof"efficiency,"ithasaclearmoralvalence.Efficiency isgood andinefficiencyisbad;lowrisksaregoodand highrisksarebad.Oncewehaveanideaofthegood,a moralitycanbebuiltaroundit.(Cf.,Nietzsche1888:39,describingthemoralityofthenobleman"who conceivesthebasicconcept"good"inadvanceandspontaneouslyoutofhimselfandonlythencr eatesfor himselftheideaof"bad"!")Thefactthatinsuranceunderwritersandadjusters(albeitimproperlyfroman economist'sperspective)commonlycollapsethecategoriesofgoodandbadrisks,ontheonehand,and moralandimmoralpeople,ontheoth er(Glenn2000,Baker1994),illustratesthemoralizingpowerof riskclassification.

Noneofthisismeanttosuggest,however,thatthereisnodifferencebetweentheopenly
moralizedcounter -storydescribedinthefirstpartandtheeconomicaccountske tchedhere.Indeed,
althoughtheoverlapisfarfromcomplete,theinsuranceandeconomicaccountsresonatewithtwo
governmentalrationalitiesdescribedbyEwaldinarecentrevisitingofsomeoftheideasfromhis1991
governmentalityessay.(Ewald199 9b).Thefirst, "responsibility," isaparadigmthataims "tomakeman
providentandprudent:providentastotheeffectoffortune, prudentastohimselfandtheconsequencesof
hisactions." (1999b:50).Thesecond, "solidarity," isaparadigmgrounded inanunderstandingofrisk
thatis "basedonstatisticsandprobabilities" and "independentfromtheconductofindividuals." Under
thesolidarityparadigm, alldamageissocial, notonlybecauselawandsocietydeterminewhomustbear
thecostsofalos s, butalsobecausethatlossitselfisasocialproduct: "Manisnolongerobjectifiedas
masteroffreeconductbutratherasalinkinatechnicalsystem, and hisfaultsarerather thought of as

errors, which must themselves be considered less as individual errors, than a serrors of organization."

(1999b: 57) The vision of moral hazardas a product of institutions, the idea that encounters with risk area test of institutions, and the transformation of temptation into incentive all fit well with this so lidarity paradigm. Similarly, the vision of moral hazardas a property of individual character, the idea that encounters with risk area test of character, and the goal of using insurance institutions to discipline (to "responsibilize") character all fit well within the responsibility paradigm.

Wemightsay,inFoucaultianterms,thatintheshiftfromthecharactertotheincentiveviewof
moralhazard,thenormalizinggazeturnsfromindividualstoinstitutions.Forthecharacter -centered
insuranceun derwriterthe"normal"isthenormalindividual -flawed,butnottooflawed,whocan
withstandnormal,butnotexcessive,temptations -andtheroleofinsuranceinstitutionsistorejectthe
abnormal,policethosewhoareaccepted,andguardagainstabno rmaltemptation.Fortheeconomistand
theactuary,the"normal"isthenormalloss -theamountoflossthatapopulationwouldnormallyincur
intheabsenceofinsurance -andtheroleofinsuranceinstitutionsistodesignandenforceinsurance
contractsthatcounteractthemoralhazardthatotherwisewouldresult.

AsEwaldnowstatesmoreclearlyinrelationtohisparadigmsofresponsibilityandsolidarity, thesetwounderstandingsdonotreflect"worldsthatsucceedeachotherovertime,eachreplac ing another,"butrather,different"attitudeswithrespecttouncertainty,assessedanddevelopedat[different] momentsintime."(Ewald1999b:76).Theeconomist'sunderstandingofmoralhazardasaproductof institutionswasimplicitinthe19 theen turyinsuranceliterature's emphasisonthedangerofover insurance,aswellastherelatedconcernthatearlysocialwelfarebenefitswould"pauperize"(i.e.render dependentanddemoralized)thepoorandtherebyexpandthedemandforthosebenefits.(E .g., Toqueville1835 8).Likewise,the"old"conceptofriskasatestofcharacter,andinsuranceasa discipline,remainswithustoday.

Indeed,riskasatestofcharacterisalloverpopularculture.(Simon,forthcoming).Although insuranceasdi sciplineishardlyacommontropeinpopcultureexcept,perhaps,indystopianform (Morawetz1999),itisthereforthosewholook.Arecentinsuranceadvertisementin **BusinessWeek** featuredan(attractive,female)adjustermakingastatementthat,absen **tthecopywriter'scoyenthusiasm, couldhavecomestraightoutofGriswold's1868 **Handbook**:

Ilovedissectinghumans.It'smyjobtobeanexcellentjudgeofcharacter...todeterminewhen someoneistellingthetruthandwhenthey'recommittinginsu rancefraud....Italktowitnesses, followtiretracksdownmuddyroads...whateverittakestomakesurethegoodguys,andthebad ones,getexactlywhattheydeserve.(LibertyMutual1999).

Similarly, thesensethatin surance measures an individua l's stability and conformity to social norms explains Richard Russo's choice of the title *The Risk Pool* for his novel exploring small town life in mid 20th century Upstate New York. In that novel, society's recognition that Samhad finally come to terms withordinary, middle class existence is conveyed by a letter from his insurance company saying "that he was now eligible for insurance out side the risk pool, at considerably reduced rates" (Russo 1994: 470).

(For further evidence of the present importance of character to insurance under writing see Glenn 2000)

Theconceptofmoralhazard, specifically, and ideas about insurance generally, bridgetwo competing moralities of risk, each with significant contemporary appeal. The two moralities share the ideat hat helping people can have harmful consequences (encouraging bad character for the first one, increasing social loss for the other). This alliance of ideas helps explain, for example, the extent and limits of the contemporary alliance of interests between nonservative and neo-liberal political groups. There is a world of difference between Ronald Reagan's story about the welfare queen and Bill Clinton's story about the welfare trap.

10 Reagan's story is about bad people who take advantage of the good impulses of others, and Clinton's is about well intentioned in stitutions that harm decent people. But, the

twocometogetherintheeffortto"endwelfareasweknowit,"justassurelyastheydividewhenthe conservativerelianceoncharactercollideswith theneo -liberalrelianceoninstitutions(asweseeinthe splitoversuchissuesasaffirmativeaction,publiclyfinancedeconomicdevelopment,andfinancial regulation).

Conclusion

Puttingthesetwoparadigmssidebyside —oneindividualistic/charac tercentered/disciplinary/moralistic,theothercollective/utilitarian/probabilistic/technical —itiseasytoseehowthe"actuarial" canappeartode -moralizeidentitiesandrelationships.Yet,theactuarial(oreconomic)paradigmalso moralizesid entitiesandrelationships.Inthatregard,Arrow'sdecisiontoinjectintothefieldof economicsatermwithsuchapejorativeconnotationintheinsurancetradeisrevealing.Indeed,inthe samearticle,hecommentedonhisuseoftheterm"optimalityt heorem"asfollows:

Boththeconditionsofthisoptimalitytheoremandthedefinitionofoptimalitycallfor comment. Adefinitionis justa definition, but when the *definiendum* is a word already in common use with highly favorable connotations, it is cle arthur wear ereally trying to be persuasive; we are implicitly recommending the achievement of optimal states. (Arrow 1963:942)

So,too,withmoralhazard,thoughherethe *definiendum*wasawordincommonuseintheinsurancetrade withverynegativec onnotations.Intheeconomicaccountmoralhazardleadstoinefficiency,whichis clearlya"bad"ineconomicanalysis.Similarly,althoughactuariesmaytalkaboutgoodrisksratherthan goodpeople,botharetherebygivenamoralvalence,anddistingui shedfrombadrisksandbadpeople.

Itisimportanttorememberthattheinsurancewriters'andtheeconomists'accountsaretwoways ofmakingsenseofthesamehistoricalphenomenon:thegrowthofinsuranceinstitutions.Indulging ourselvesforthemom entwiththethoughtthatthetechnicaleconomicaccountrepresentsinsomeway

"insurance" initspure, ideal (Platonic?) form, we can understand the insurers' account as in part the lived reaction to that form. Indeed, the rhetoric of moral hazardarose in reaction to a perception that the new insurance forms threatened public morality (Baker 1996, Zelizer 1979) and, in time, moralized those forms:

Therhetoricofmoralhazardpermittedtheinsurancementodenythatinsurancebroke withconventionalmor ality, and to believe their denial, even as the enterprise they built traveled down the road toward the abandon ment of that morality in favor of a populational, actuarial understanding of that world. (Baker 1996:260).

Whilethisaccountofthemoralization of insurancestand suptore -examination, the claim that conventional morality was somehow abandoned clearly does not. This new way of understanding the worldwas as yn the sis built on the old that did not abandon morality but rather (partially) transform edit, creating an alternative, not are placement. The "actuarial" account differs from the "juridical" account, not in the absence of moral judgments but only in their definition.

Onedemonstrationthatbothmoralitiesofriskhavesurvivedintothe21 stenturycomesfromthe internalorganizationofinsurancecompanies, wherethetwomoralities are institutionalized within different departments. The typicalin surance company contains an actuarial department that is responsible for setting rates and isk classifications, an under writing department that is responsible for selecting who will be insured from a mongthose who apply, and a claims department that is responsible for weeding out fraud and exaggeration. Undoubtedly, reallife actuaries deviate in significant ways from the ideal type of actuarialisms ketched above. (Cf., Alborn 1996) Nevertheless, their role and approach differs markedly from that of under writers and claims representatives. Actuaries work with a gregates, with selected and unselected populations. Under writers and claims workers, in contrast, differentiate among the individuals within those aggregates. (Glenn 2000, Baker 1995) As this suggests, these "competing" approaches to risk can in practice be complementary. Holding individual character constant allows

actuaries (and econometricians) to identify environmental and institutional effects on risk. Leaving room for characteral low sunder writers and claims handlers to act on the popular belief (which we act on nearly every day in our lives) that, not with standing Freud, it is possible to know one another and to predict behavior on an individual level.

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NOTES.

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- Hereandelsewhere, Iusetheword "moral" initstraditional sense. E.g., Nietzsche (1888).
- Theseincludethedoctrinesofinsurableinterest, fortuity and indemnity. The "insurableinterest" requirement obligates the beneficiary of an insurance policy to have some interest in the preservation of the property or life insured, which acts as a check on any improper incentive toward the destruction of the person or property insured and which eliminated certain kinds of insurance that we regarded as forms of gambling. The "fortuity" principle limits insurance to events that are uncertain and, thus, would be one basis for excluding intention allosses (presumably insured swould tend to cause losses intentionally when that "loss" was really a "gain"). The indemnity principle limits the amount paid on an insurance claim to that required to "indemnify" the insured for the loss, i.e., make the insured whole, but not better off. See Jerry (1996).
- Examples ofworkthatpointsinthisdirectionarecollectedinBaker&Simon(Forthcoming). See also Alborn(1996and2000), Clark(1999), Ericson(2000), Glenn(2000), Weisbrod(2000) and Zelizer(1979).
- Ofcourse, like other assumptions, this one does not al ways match reality. See Baker (1996:277 -79).
- SeeAnActeconcerningemattersofAssurances, among steMarchantes, 1601, 43 Eliz., ch. 12 (Eng.):

BymeanesofwhichePoliciesofAssuranceitcomethetopasse,uponthelosseorperishingeof anyShippe therefollowethenottheundoingeofanyMan,butthelosselightetherathereasilie uponmany,thenheavilieuponfewe,andratheruponthemthatadventurenotthenthosethatdoe adventure,wherebyallMerchantes,speciallietheyoungersorte,areallur edtoventuremore willinglieandmorefreelie....

- LeadingarticlessettingouttheeconomicsofmoralhazardincludeArrow(1963and1968),Pauly(1968 and1974),Ehrlich&Becker(1968),Marshall(1976),Holmstrom(1979),andStiglitz(1983).
- Understandingtheeconomicconceptofmoralhazardasconsistentwithaprincipleofsolidaritymighttake someworkforthoseaccustomedtofocusingonthecompetitive -individualismthatunderliestheideaofutilityatthe coreofneoclassicaleconomics .But,onceriskisconceivedastheproductofinstitutions -acoreinsightofthe economicconceptofmoralhazard -allrisk issocial,andthesolidaristicconsequencesofthatunderstandingare wellexplainedbyEwald.Whilethesenseof fraterniteoftenthoughtessentialtosolidarityismissing,oneofthe geniusesofinsuranceasapracticeisthedemonstrationthatsolidaritycan,andindeeddoes,existnotwithstanding theabsenceoffraternalfeelingamongtheparticipantsinanyparticularins urancearrangement.Baker (Forthcoming).
- "Iamconvincedthatanypermanent,regular,administrativesystemwhoseaimwillbetoprovideforthe needsofthepoor,willbreedmoremiseriesthanitcancure,willdepravethepopulationthatitwantstohe lpand comfort,willintimereducetherichtobeingnomorethanthetenant -farmersofthepoor,willdryupthesourcesof savings,willstoptheaccumulationofcapital,willretardthedevelopmentoftrade....."Toqueville(1835:25)
- Forfurtherdisc ussion,seeBaker(1995)onthe"claimsstory"ofthe"immoralinsured,"whichplaysan importantroleinclaimsadjusting.
- Whilecampaigningforoffice,RonaldReaganwasfondoftellingafictitiousstoryofaChicagowelfare queen,whowasabletodr iveaCadillacbecauseofthewelfarepaymentsshecollectedonbehalfofnonexistent children.Themessageofthisstorywasthatmanypeoplewhocollectedwelfarewerecheatswhodidnotneedit.

 $Bill Clinton told his story of the welfare trap when exp\\laining why the U.S. needed to "endwelfare as we know it."\\ The welfare trap is a system that prevent speople from going back to work because they will make less money in their first job of fwelfare than they make on welfare. The message of this story is that the welfare problem is a broken system, not bad people.$

Thisdescription does not take into account significant statutory limits on insurance company's selection among applicants in some lines of insurance, at least in the United States. Health insurance is the most heavily regulated in this regard.