
The Voluntaryist

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"If one takes care of the means, the end will take care of itself."

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Insurance and the Government: Partners in America

By Kurt Fuller

[Editor's Note: The author of this article has been professionally involved in the insurance business for over 27 years. In August 1996, he founded and became president and CEO of the Michigan Insurance Company of Grand Rapids, MI, which currently has over \$73 million of premium writings. Mr. Fuller earned a B.B.A. from the University of Iowa, an M.B.A. from the University of Michigan, and the CPCU (Chartered Property and Casualty Underwriter) designation. He has published two previous pieces in THE VOLUNTARYIST (in Whole Nos. 114 and 115).]

Insurance is an enormously large industry in the United States. In exchange for a monetary payment (the premium), one party (the insurer) will assume some of the risk faced by another party (the insured). Virtually any type of risk can be insured, such as losses relating to your death, your car, your house, your teeth, a satellite, Tiger Woods, the Mona Lisa, and a hole-in-one charity event. While some people are repulsed by the thought of purchasing insurance, the reality is that our lives and lifestyles would be very different without it.

If insurance did not exist, it would be immensely more difficult to get a mortgage to purchase a house, or a loan to buy a car. Most lenders would not want to take the risk of their collateral disappearing and be left "holding the bag." It doesn't mean that houses and cars would not exist, it simply means that there would be far fewer of them. It doesn't mean that we wouldn't have teeth; they just would not be as well cared for. It doesn't mean that we wouldn't have beautiful, rare paintings, but there would be fewer of them, and they might not be displayed as frequently in public.

If insurance is such an integral part of our lives, then why is it not embraced by the public as a god-send, and why are premiums not paid enthusiastically? Why does the public demand that government regulate the insurance industry so that the consumer is protected? Why do consumers generally feel that they are being ripped off by the insurance industry, despite the heavy regulation? Why are the insurance carriers perceived as always trying to worm their way out of paying when something goes wrong; why do rates increase, even when you have a good claims record?

The answers to these and most other questions

regarding the workings of the insurance business are hidden behind a façade. To the naked eye, the government and the insurance industry are in constant battle, with the government tirelessly working to protect the consumer, and the industry tirelessly working to fleece the consumer (its customers). Behind the façade is a fascinating partnership between the government and insurance companies.

What? How can these "mortal enemies" be partners? How can the government be partners with the evil perpetrators of public misery? And how can insurance companies be partners with the entity that is suppressing its revenues, working to expand the scope of its claims payments, and increasing expenses through compliance with the bureaucracy? This must be a misprint.

Sadly, it is not a misprint. In actuality, the partnership works very well, and allows both partners to flourish. How does it do this? Let's first look at the history of the partnership and see how we got where we are today.

The insurance business in the United States was marked by instability during much of the 19th Century. Companies were generally undercapitalized and ratemaking was mostly guesswork (because there was no historical loss data). The result was that the majority of companies went bankrupt, and many customers were left with large, unpaid claims.¹

It is not hard to imagine that customers who suffered large losses (such as a house burning down) believed the government should step in and "do something" about this problem. At the same time, the surviving insurance companies were only too willing to accept "help" from the government in keeping their businesses solvent, in the name of protecting the consumer.² This was the beginning of the insurance/government partnership.

The stated reasons for government involvement in the insurance business have not changed much since then. A recent article in the FLORIDA STATE UNIVERSITY LAW REVIEW, entitled "Insurance Regulation in the United States," stated that:

Regulation of the insurance industry is necessary. As the United States Supreme Court has long recognized, insurance is a business coupled with a public interest. Consumers invest substantial sums in insurance coverage in advance, but the value of the insurance lies in the future performance of the various contingent obligations. Because the interests protected are so important—including an individual's future ability to provide for dependents in case of death

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My Reaction to Voluntaria

By Charles Guitierrez

Sometimes I am asked, "... but if we didn't have government, who would provide defense and police services and the utilities and the roads...and early childhood education?" My questioners usually conclude, "If everyone believed like you we'd have ANARCHY!" I usually answer by referring to some of Carl Watner's articles in his anthology, *I MUST SPEAK OUT*. Carl's book is filled with real life stories of how man in this world has provided for himself without the "charitable" help of coercive government; but it is long and takes careful reading. What is available for a child or for those grownups whose interest in liberty is still young and timid? *PRINCESS NAVINA VISITS VOLUNTARIA* is perfect. It is an entertaining and effective story that makes one wonder if a voluntary society without government is possible. My children sat enthralled as they listened to their daily chapter; and my wife and I were engrossed as well. It is easy and attractive reading.

Princess Navina, in her exploration of world cultures, discovers Voluntaria. She searches high and low for any traces of government, but all she finds are people who mind their own affairs, who meet the common needs of life, including justice and utilities and public order, by creative free enterprise in a fertile free market. This little book has renewed my belief that a just society is possible, and is a lot easier than reading than Ayn Rand or Carl Watner. Is it as big or filled with educational details as these other books? No. Is it as inspiring as *ATLAS SHRUGGED*? Yes, in its own simple way. Will this book garner a Newberry Medal? Is it great literature by New York or Parisian or Cuban standards? Probably not; but it is great storytelling, and a delightful read for lovers of liberty. It is my new answer to those who say, "If everyone believed like you we'd have ANARCHY!" I say, "No, if everyone believed like I do we'd have *VOLUNTARIA*!"

PRINCESS NAVINA VISITS VOLUNTARIA comes off as a "harmless" little book which could begin a beautiful revolution in the hearts of all, both young and old. I highly recommend it. ▣

Insurance and the Government:

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or injury, to retire, to obtain necessary medical treatment, to replace damaged or destroyed property—regulation of the industry furthers public welfare.

Related reasons for regulation center on the complexity of insurance, and consumers' inability to obtain and understand information about insurance. Consumers are ill-equipped to assess a company's future solvency, to compare the coverage of various policies, or to evaluate a company's claims service. Theoretically, government regulation of insurance eliminates these problems. Regulation can ensure solvency and the insurer's ability to pay claims in the future, standardize policy coverage, require minimum coverage, and require fair claims processing.

An equally important justification for insurance regulation is the prevention of excessive and potentially destructive competition. Because an insurance company's real costs are not known until an insurance policy matures and all claims are paid, the insurance business tends toward extreme competition in pricing. If the insurer's insolvency results, the consequences for the insured and their beneficiaries may be devastating.³

These three paragraphs summarize the general beliefs about insurance regulation. In this context, is it any wonder that the insurance/government partnership developed and flourished? Why would you want it any other way?

Now that the "need" for the partnership has been established, let's look at what each of the partners gets out of the deal:

What the government gets

1. A piece of the action
2. Support for more bureaucracy
3. Legitimacy

A Piece of the Action

The government benefits tremendously in its relationship with the industry through various methods of extracting taxes and "assessments." The easiest and most obvious is direct premium taxes, which are usually collected by state governments, and are typically based on a percentage of the customers' premiums. What better way to be your partner than to get a piece of every dollar you bring in? There are literally dozens of other less visible and clever "assessments" for things like "auto theft prevention," "second injury," "silicosis and dust," "insurance company insolvency," and "assigned risk pools." In short, the revenue spigot is wide open from the industry to the government.

Support for More Bureaucracy

Along with all the “assessments” comes the need for “regulatory oversight.” What good is an “auto theft prevention” fund without a bureaucracy to administer it? Every revenue source, assessment, or tax provides the excuse to further regulate, which is the code word for further expansion of the bureaucracy. While bureaucrats have little in common with business people, the one trait they share is the desire to expand their empire.

Legitimacy

Once the government has all the clever schemes and “regulatory oversight” in place, they are in great position to proclaim their success in “protecting the public.” They have slain the giant, and we are all safe again. Yes, we are humble public servants, but we do it all for you. How noble and altruistic! It sure sounds like we need these “helpers” in our lives to make sure everything is OK.⁴

What the companies get

1. Protection from competition
2. Protection from innovation
3. Legitimacy

Protection from Competition

If you ask the CEO's of all the companies in the US whether they believe in free markets and the value of competition, they will all emphatically answer in the positive. However, if you ask whether they support specific measures that will eliminate barriers to entry and increase the competition in their industry, virtually every CEO will give a million reasons why a freer market does not make sense in his particular case. The insurance industry is no different.

When you examine specific measures that have been supported, or are being supported, by the insurance companies, there is a predictable pattern. First of all, they all advocate “compulsory” automobile insurance to insure plenty of customers. Secondly, they favor things like greater capital requirements, tighter regulation of rating, and innovative taxing schemes. However, all of these things are advocated and supported in the name of “protecting the public.” We wouldn't want you to purchase insurance from a company that is not adequately capitalized!

If these companies truly believed that they were acting in the interest of their customers and the public at large, wouldn't they also believe that they would eventually write most of the business anyway? It tells you what they really believe.

Protection from Innovation

It seems to be the nature of things for big, old, established companies to also be fat, slow, and inefficient. If so, it leaves them vulnerable to quick-moving, market-responsive, hungrier companies. One way for companies to slow down their hungrier competitors is to become leaner, faster-moving, and more efficient themselves. However, a quicker, less-painful, and easier way is to work with their partners in the government.

Insurance companies are consistent proponents of tighter underwriting rules, stricter rating rules, and more specific definitions of coverage. These measures are advocated in the name of efficiency, but they result in very little room for innovation. The customer-responsive companies are not allowed to respond to the market because the rules do not allow it. Innovation still exists, but it is expensive to implement, and in constant danger of being regulated away.

Legitimacy

Wasn't this category already mentioned on the government side of the ledger? Yes, the whole process legitimizes everyone's role. If a company is taxed, regulated, and legislated as part of the process and is still able to survive and prosper, then it must be doing a good job. “Mr. Customer, you can count on me. If I subject myself to the regulatory process, then you know your insurance dollars are safe with me.”

The latest issue that demonstrates the true nature of the insurance/government partnership is terrorism. Yes, the industry suffered horrendous losses as a result of the events on September 11, 2001. Yes, the industry would go broke in a hurry if this became a regular thing. Yes, we should seek solutions to the problem.

But does that mean that the government should become an “insurer of last resort?” For the insurance industry (as always), the consensus answer is “yes.” They jumped at the chance to solidify and enhance the partnership. By the time the process was completed, the final solution had terms that are protective of and beneficial to the insurance companies, and more costly for the consumer. In addition, all of the elements mentioned above (what the government gets and what the companies get) have been enhanced.

“Any undertaking that involves more than one man, requires the *voluntary* consent of every participant. Every one of them has the *right* to make his own decision, but none has the right to force his decision on others.”

— Ayn Rand, in “Man's Rights”
in Appendix to CAPITALISM:
THE UNKNOWN IDEAL (1966),
pp. 291-292.

Obviously, the market is not capable of responding to such a monumental problem. Or is it? Maybe we should take a closer look at what has actually happened in the insurance marketplace on the issue of terrorism.

Terrorism is not an insurable risk by definition. The potential losses are not predictable, cannot be adequately contained, and are not of a nature where a proper price can be determined. A close look at standard policy language reveals (based on interpretation) that terrorism is not covered, nor was it ever intended to be covered, based on the War Risk Exclusion.

While the interpretation of that exclusion can be debated,⁵ it is clear that companies did not charge a premium for this coverage and did not contemplate that exposure in their ratemaking. Then why in the world would the industry step forward and pay upward of \$30 billion in losses?

It all gets back to the partnership. Shortly after the attacks, President Bush, knowing that coverage was in question, asked the insurance industry to step forward and voluntarily provide coverage, in the name of patriotism. Once the first few companies committed themselves to covering the losses, the rest of the companies were forced to follow. (Imagine the public relations and legal problems you would face if you did not follow.) The unstated agreement is this: "Help me out by covering these losses and I'll help you out. I'll pass laws to make the government insurer of last resort so you won't have to worry about this in the future, and I'll do my part to support your business in the future."

But isn't it a good thing that President Bush boldly stepped forward to rescue people from their financial losses? If terrorism was allowed to be excluded from coverage, people would be left out in the cold with no losses being paid, and the consequences would be devastating. Really?

One of the most fascinating aspects of the September 11 disaster is the response from private organizations and individuals outside of the insurance business. Nearly two centuries ago, the French observer Alexis de Tocqueville remarked on the unique willingness of Americans to organize themselves to meet community needs.⁶ You can argue that this is a perfectly rational and appropriate way for this situation to be addressed, even if the insurance industry and the government were not involved. Does it really seem so far fetched that this kind of heinous act can be rectified (financially) through the voluntary efforts of good people, without government involvement?

Markets have a way of responding to any situation. But how could the voluntary efforts of Americans possibly come close to replacing the \$30 billion in losses projected to be paid by the insurance industry? They may come closer than you realize.

According to a September 2002 report from the General Accounting Office (GAO), entitled INTERIM REPORT ON THE RESPONSE OF CHARITIES, a staggering \$2.45 billion was raised by 34 large charities in response to the September 11th tragedy. The list of charities includes the American Red Cross Liberty Fund, The September 11th Fund, the Twin Towers Fund, the International Association of Firefighters, and the Salvation Army. However, this is a small sliver of the total charitable activities related to September 11.⁷

In the June 2002 edition of IDEAS ON LIBERTY magazine, Doug Bandow points out that, "Americans responded in a staggering variety of ways after September 11, creating special funds, hosting car washes,

providing food, donating blood, and doing much more."⁸ There are literally thousand of organizations that have provided direct and indirect relief efforts (monetary and non-monetary). Countless churches and neighborhood groups coordinated efforts to raise money, food, clothing, etc.

Even the GAO report acknowledges that, "a precise tally of how much charitable aid was collected...may never be available given the difficulties in tracking information across multiple independent charitable organizations."⁹ And the donations are still rolling in, though at a slower pace. In addition, we have not even begun to tally the enormous efforts that have taken place outside the United States and throughout the world.

If there is one thing government loves above all else, it is crisis. Crisis provides the opportunity to write laws, create programs, increase taxes, spend money, expand the bureaucracy, impose regulations, extend control — in short, to justify more government.

—Jim Lord, Y2K SURVIVAL LETTER, October 1998.

The following are a few examples among thousands of charitable efforts that are likely *not* counted in the statistics of recognized charities:

Over \$1 million was raised for the Twin Towers Orphan Fund, which provides financial support for children of the victims of September 11.¹⁰

Institutional donors (corporations and foundations) contributed over \$1 billion to various charities, according to the PHILANTHROPY JOURNAL.¹¹

The German Cardiac Society donated \$100,000 to the Fire Department of New York to replace an ambulance lost on September 11.¹²

Keefe, Bruyette & Woods, a New York-based investment banking firm, has raised more than \$10 million to help support the families of the 67 former KBW employees that perished on September 11.¹³

Authors of the book 911: THE DAY AMERICA CRIED will donate the proceeds of the book to the Todd M. Beamer Foundation.¹⁴

Merrill Lynch has established a \$5 million scholarship fund to benefit students at three lower Manhattan high schools affected by the tragedies of September 11.¹⁵

America's Fund for Afghan Children has raised \$9 million. This money was raised through American children who each donated \$1 to help suffering Afghan children.¹⁶

How much has been raised in total? No one will

ever know for sure. Based on what we do know, I believe a reasonable estimate is \$10-20 billion. If this number is anywhere close to being accurate, it is compelling evidence of the power of voluntary response to a crisis. Could America rebuild from another terrorist attack if there was no insurance and no government money? I believe the evidence shows that it would.

What if our entire society was based on voluntarism? Would there still be an insurance industry? What would it look like, and how closely would it resemble what we have today? How could the system work without a central authority to make sure that everyone is treated fairly?

No one knows for sure how things would look under voluntarism, because it is based on spontaneous action that is not distorted by the presence and interference of government. However, we can make some educated guesses.

The first thing to understand (contrary to the statements in the FLORIDA STATE UNIVERSITY LAW REVIEW and to beliefs held by most Americans) is that regulation of insurance is *not* necessary. Yes, there is potential for large losses of income and assets if exposures are not properly covered. Yes, the business is complex. Yes, some companies will attempt to take advantage of their customers. Yes, it is a competitive business, and the possibility exists that some companies will go broke.

But the government cannot fix these problems.¹⁷ It can only make them worse, as it has. If there were no coercive government, people would know that they must fend for themselves. They would have the incentive to be better educated about services available and the reputations of the various companies. Or, they would make sure they have an agent who has the knowledge they lack.

Some companies will take advantage of their customers in a voluntarist society, as they do now. However, the consequences will be more direct and more severe. Better educated customers will spread the word quicker about unethical practices, and the companies will not be able to hide behind a government license and government regulation, which give the customer a false sense of security.

In a voluntarist society, there likely would be private insurance available to protect against insurance companies going bankrupt. Currently, there is no such insurance because the government guarantees the obligations of bankrupt insurance companies,¹⁸ then passes the cost along to solvent companies (and their customers). This creates perverse incentives, including the fact that the customer is taken completely off the hook in choosing a company with solid financials. No wonder the business is so volatile!

There would likely be a much higher level of innovation by the insurance industry in a voluntarist society. Today everything is homogenized because

government regulation is intended to "level the playing field." Remember that a critical component of the insurance/government partnership is to keep barriers to entry high, and to make life difficult for newer, smaller, market-responsive companies.

Without government protection, the insurance industry would likely be much more interested in preventing losses than in simply paying them and passing the costs back to the customer in the form of rate increases. It makes sense that there would be strong incentives for insurance companies and defense service agencies (private police) to form alliances in a voluntarist society. How might those alliances manifest themselves?

In their excellent book, *THE MARKET FOR LIBERTY*, Morris and Linda Tannehill outline an extensive scenario of how insurance companies and defense service agencies might work together in what they call a "laissez-faire" society:

There are two main reasons for insurance companies' interest in the business of defense: 1—acts of aggressive violence result in expenses for insurance companies, and 2—the more secure and peaceful the society, the more value-production there will be, and the more value-production there is, the more things there will be that require insurance coverage, which means more insurance sales and more profits... .

In a laissez-faire society, insurance companies would sell policies covering the insured against loss resulting from any type of coercion. Such policies would be popular for the same reason that fire and auto insurance are—they would provide a means of avoiding the financial disaster resulting from unexpected crises. Since insurance companies could not afford to insure poor risks at the same rates they charged their other customers, insurance policies would probably specify certain standard protective measures that the insured must take in order to buy the policy at the lowest rates—burglar alarms connected to the defense service company's office, for example. Policies would also state that the insured must buy his protection from a defense agency that met the standards of the insurance company, to avoid having him hire an inefficient or fly-by-night defense agency at a cheap price while counting on his insurance to make up for any loss which their ineffectiveness caused him. ...

Because of the close connection between insurance and defense, some of the larger insurance companies would probably set up their own defense service agencies in order to offer their clients the convenience of buying all their protection needs in the same package. Other insurance companies would

form close ties with one or more independent defense service agencies that they had found to be effective and reliable, and they would recommend these agencies to their customers. ...

[As an added benefit,] the powerful insurance companies, with their vast and varied resources and their vested interest in seeing values protected and aggressive violence held to a minimum, would act as a natural check upon the defense service agencies. This is an example of how the market, *when left unhampered*, constantly moves toward a situation of maximum order and productivity. The market has its own built-in balancing mechanism which automatically keeps it running smoothly with the best long-range results for every peaceful individual. ... Government is only so much sand in the gears.¹⁹

Insurance is potentially a dynamic and exciting business that provides much-needed services. In today's world, it has evolved into an inefficient and uncompetitive dinosaur. I believe the primary reason for the current state of affairs is the insurance/government partnership. Under a voluntarist approach, I believe we would see broader coverages, better service, and significantly lower prices. Unfortunately, there does not appear to be much chance of this happening anytime soon. ▽

Endnotes

¹ Early insurance companies often did not understand the need for re-insurance. Many restricted their underwriting to the city or town where they were headquartered. Unfortunately, this produced a heavy concentration of values, and it was not unusual for a single catastrophe (like the Chicago fire of 1871, or the San Francisco fire and earthquake of 1906) to bankrupt an insurance company. For more details on the "Historical Development of Insurance" see "Insurance," Volume 21 (Macropaedia), THE NEW ENCYCLOPEDIA BRITANNICA, Chicago, 1992, 15th edition, p. 753. Also see Albert Loan, "Institutional Bases of the Spontaneous Order: Surety and Insurance," 7 HUMAN STUDIES REVIEW, No. 1 (Winter 1991/92), pp. 3, 17-24, available on the web at www.theihs.org/libertyguide/hsr/hsr.php/13.html. The parallel between the evolution of the early insurance industry and the early automobile manufacturing industry is very interesting. There were literally hundreds of small vehicle manufacturers in the early days of the industry. Only a handful eventually thrived and survived.

² Twentieth Century insurance companies have always eagerly embraced the belief that "excessive" competition is bad for the public (which obviously implies that it is bad for the existing insurance organizations, too).

³ Susan Randall, "Insurance Regulation in the United States: Regulatory Federalism and the National Association of Insurance Commissioners," 26 FLORIDA STATE UNIVERSITY LAW REVIEW (1999), pp. 625-699, at p. 627.

⁴ Bureaucrats in government agencies that regulate insurance companies are no different than their counterparts in other government programs and regulatory schemes. They all want to expand their control and conquest.

⁵ Every sentence of every insurance contract can and has been debated. The interpretation given here is the opinion of the author, though others have supported this position.

⁶ Doug Bandow, "The War on Charity," IDEAS ON LIBERTY, June 2002, p. 6.

⁷ Cynthia M. Fagnoni, REPORT TO THE HONORABLE CHARLES E. GRASSLEY, SEPTEMBER 11: INTERIM REPORT ON THE RESPONSE OF CHARITIES, General Accounting Office, September 2002, pp. 30-31.

⁸ Op. cit., Bandow.

⁹ Op. cit., Fagnoni, p. 29.

¹⁰ Business Editors, "Twin Towers Orphan Fund Seeks Additional Support," WWW.BUSINESSWIRE.COM, December 26, 2001.

¹¹ "9/11 Charity," PHILANTHROPY JOURNAL (March 14, 2002).

¹² Business Editors/Health and Medical Writers, "New York City Mayor Guilani Accepts Gifts From Visiting Cardiologists," WWW.BUSINESSWIRE.COM, December 14, 2001.

¹³ Business Editors, "Keefe, Bruyette & Woods to Donate September 24, 2002 Sales Commissions to KBW Family Fund," WWW.BUSINESSWIRE.COM, September 18, 2002.

¹⁴ Business Editors, "Authors Contribute to Book Commemorating September 11," WWW.BUSINESSWIRE.COM, September 9, 2002.

¹⁵ Business Editors, "Merrill Lynch Establishes \$5 Million Scholarship Fund for Lower Manhattan High School Students," WWW.BUSINESSWIRE.COM, September 6, 2002.

¹⁶ Walter Scott, "Personality Parade," PARADE MAGAZINE, August 11, 2002, p. 2.

¹⁷ Nor any other problem.

¹⁸ All 50 states and the District of Columbia have what are called Guaranty Funds, which essentially pay the losses of bankrupt insurance companies, then pass on the cost to the remaining solvent companies based on market share.

¹⁹ Morris and Linda Tannehill, from Chapter 8, "Protection of Life and Property," in their book THE MARKET FOR LIBERTY (1970), pp. 85-87.

My Route to Voluntaria

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state university (grossly overpaid, I can now confess), and committed to finding ways to fix the flaws of government.

These, I was discovering, were more numerous and appalling than I, or almost anyone, had dared to report. In fact, I was seeing that when government policies are closely examined, they often seem diabolically perverse, as if policy makers had started out with the aim of doing as much harm as possible. This thought provoked me to invent, as an intellectual exercise, a fictional country where the rulers deliberately intend to inflict harm and sow havoc. It was remarkable to see how often the policies developed by these evil-intentioned rulers were the same as those cherished by modern lawmakers. Seeing that my friends enjoyed this little tale, I eventually published it (PRINCESS NAVINA VISITS MALVOLIA, 1990).

This book, like the others in the series, is a short, illustrated volume in large type. My aim was to make my points quickly and easily for an adult audience and to avoid at all costs anything dull and ponderous. I saw my books as an imitator of GULLIVER'S TRAVELS but one that avoided the interminable verbiage of that work. (PRINCESS NAVINA VISIT MALVOLIA employs but 9,000 words; in the same space Gulliver has not even begun making a single point.) As it turned out, the casual format gives the work the appearance of a children's book, and it has also succeeded in that market.

The Malvolia book and the two sequels that also explored government dysfunctions propelled me to a deeper level of analysis. Almost any thoughtful person can see that government is laughable, and often tragically, inept. But what is the underlying cause of its incompetence? The quest to answer that question led, in the end, to PRINCESS NAVINA VISITS VOLUNTARIA.

The problem, it seemed to me, is centralization. With government, a small number of people attempt to manage much more than they can possibly understand. Imagine, for example, setting a minimum wage for scores of millions of people in tens of thousands of employment situations. Any rule on the subject made from the center would necessarily be inappropriate, ineffective, or harmful in countless numbers of cases. Similarly, how could a tiny handful of men and women wisely oversee the spending of two trillion dollars in tens of thousands of programs and services? Such a system would necessarily involve massive amounts of waste and misallocation. It became increasingly clear that the only rational way to tackle the provision of community services is a highly decentralized system where tiny units deal with problems small enough for the relevant decision makers to grasp, tiny units like individuals,

families, and local commercial and voluntary organizations. As the Princess put it (in PRINCESS NAVINA VISITS NUEVA MALVOLIA), "What's wrong with politics is that everyone's trying to fix things from a distance, like cooks trying to bake a pudding through the speaking tube. No wonder they blunder. When you tend things right under your hands, you can succeed."

If small-scale decision-making is best, why has the world opted for centralization? One is at first tempted to blame it on the hubris of politicians. I have spent many years researching the psychology of politicians, interviewing both American and Latin American leaders in an effort to determine their motivational outlook. The results clearly show that most of them are egotistical status seekers, craving fame and glory. It is natural, then, that they should seek to implement grandiose, centralized schemes in hopes of becoming national heroes.

But yet, the blame lies not only with politicians. Political leaders play to a mass audience that obviously endorses this penchant for centralization. When a national leader gets up and promises to fix the country's education, agriculture, or medical care, the public does not mark him as an idiot. They think he is making sensible, commendable proposals!

So the underlying problem is that human beings are not by nature constructed to be humble. We always seem to think our opinions are valid, even though those opinions might be based on mere fragments of information, whim, shallow impressions, hearsay, or emotion. The result is almost everyone wants to impose his ideas on far-away situations where it appears at first glance that something is wrong. For example, when it is reported that workers are paid seemingly low wages in some job thousands of miles away, very few people have the ability to suspend judgment, saying, "I've only heard a tiny fragment of what is bound to be complex social and economic arrangement, and therefore I have no rational grounds for drawing conclusions about right or wrong, or making recommendations for improvement."

Instead, most people, including intelligent and educated people, will say, "How wrong that is! The workers should be paid more!" The politicians merely reflect this widespread tendency to form opinions about complex, distant circumstances. That is the basic cause of government's destructive, inefficient centralization.

It seems clear that this problem cannot be cured by expecting people to become more sophisticated about social and economic realities. Most people have great difficulty mastering even elementary points of economics (such as the idea that there is no free lunch). It is utopian indeed to expect the population of any country to achieve a mature humility about the human capacity to wisely address countrywide problems.

The conclusion I reached, therefore, was that if one cannot control the *motive* to centralize management of the social world, the alternative must be to control the *means* - which is, of course, the use of force. It is force that enables far-off individuals, be they senators or voters, to impose their whims on situations which they imperfectly understand. Without employing the threat of violence, these individuals would have to rely on voluntary means, like persuasion, or give up expecting their existing opinions to be made effective.

Thus, the person, who believes that far-off workers are underpaid would have to try to persuade employers to raise their wages. His advice could be taken or ignored, of course. Or, if the reformer were really idealistic, he could donate money to be added to the paychecks of the underpaid workers. Or he could try to persuade the workers to quit their underpaid jobs. The reformer who is deprived of the use of force is not without means of implementing his opinions, but these voluntary methods are necessarily piecemeal and partial. The harmful, irrational centralized control we now associate with government cannot take place.

WE ARE NOT TAX EXEMPT

Your gifts to our work are not tax-deductible. Our efforts are bound by conscience and good-will, not government regulation or political privilege. We refuse to be numbered or supervised by any government agency.

I concluded, then, that the ideal society would be one where the members deliberately refrained from the use of force, or to put it more carefully, where they abstained from the initiation of force to attempt to solve social problems. Thus was the land of Voluntaria born. I tried to show how the public functions now undertaken by a coercive, centralized government would be undertaken in a voluntary regime more efficiently and with less vexation by small-scale units, especially voluntary organizations.

Although my aim was to identify a society where social policy was made in a rational, helpful manner, as I got into writing the story, I found myself making other points. As I tried to visualize patterns of behavior in a voluntary society, it became clear that voluntary arrangements foster friendship, generosity, and a sense of community. When you can't use force to change other people's behavior, this more or less compels you to approach them in a friendly, non-combative way. And when you can't use force to improve the world, you soon realize that an improved world must depend on strengthening attitudes of helpfulness and cooperation.

Thus, I discovered that a voluntary system does not merely make good policy. It tends to make good people. ▮

My Route to Voluntaria

By James L. Payne

[Editor's Note: Political scientists James Payne has taught at Yale, Wesleyan, Johns Hopkins, and Texas A&M. He wrote his first book (published by Yale University Press) while an undergraduate at Oberlin College and now has over a dozen books and monographs to his credit. Disappointed with the irrelevance and left-wing orientation of the academic political science discipline, Payne resigned his tenured professorship (at Texas A&M) in 1985, and became an independent, free-lance scholar living in Sandpoint, Idaho. His recent works include an analysis of Congress and the budget (THE CULTURE OF SPENDING: WHY CONGRESS SPENDS BEYOND OUR MEANS), an evaluation of the tax system (COSTLY RETURNS: THE BURDENS OF THE U. S. TAX SYSTEM), and an examination of social assistance policies (OVERCOMING WELFARE: EXPECTING MORE FROM THE POOR—AND FROM OURSELVES).

In addition to his non-fiction books, Payne has written the Princess Navina series of fictional allegories (PRINCESS NAVINA VISITS MALVOLIA, PRINCESS NAVINA VISITS MANDAAT, and PRINCESS NAVINA VISITS NUEVA MALVOLIA). At the request of the editor, he explains how he came to write the fourth book in that series, PRINCESS NAVINA VISITS VOLUNTARIA.]

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When I began writing the first book of the Princess Navina series in 1978, I had no idea that my efforts would culminate in 2002 with a volume laying out a picture of a voluntary society. In fact, I wasn't at that time a voluntarist, as I now call myself, and probably would have laughed at someone who tried to put forward a model of a voluntary regime. I was a professor of political science at a

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